The CLC Proposal for Pension Reform

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THE CLC PROPOSAL FOR PENSION REFORM

Explanatory Note:

For at least half a dozen years now a nationwide debate has carried on in Canada concerning both the need for and the proper direction of pension reform. The Canadian Labour Congress has been an active participant in this debate from the outset and has consistently campaigned for increases in public pension benefits from the Old Age Security, the Guaranteed Income Supplement and the Canada and Quebec Pension Plans.

In 1978 we put together a complete package of pension reform proposals and explained the rationale for them in a lengthy submission to the Royal Commission on the Status of Pensions in Ontario. In the meantime the unfolding debate has focussed attention on certain issues that were not receiving sufficient attention at that time. The most prominent case in point is the question of the fairness of the pension system to women.

In view of the fact that the agenda for debate has changed somewhat in the last four years, the Congress has undertaken a complete review of its pension policy. Our commitment to increased public pension benefits remains in tact, but we have filled in a number of gaps in our position on pension reform as it has been stated in the past.

The purpose of the current document is to make our views known on the major issues that have arisen during the debate on pension reform and

to indicate the types of reforms that we believe are necessary if all older Canadians are going to be guaranteed an adequate retirement income.

In some cases, the issues that are addressed in what follows are technical. Nonetheless we have done our utmost to present them in a fashion that will make them understandable to readers who are not specialists in the pension field.

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Section I: Introduction and Summary

For more than half a dozen years now, the Canadian Labour Congress has been promoting the cause of increased public pension benefits. We have called for increased benefits from the Old Age Security (OAS) and Guaranteed Income Supplement (GIS) in order to insure that all of Canada's elderly will have indexed incomes above the poverty line. We have also called for a doubling in Canada and Quebec Pension Plan (C/QPP) benefits so that the OAS and C/QPP would insure that all middle and low income earners could maintain their standard of living as they move from work to retirement.

The need to increase the minimum incomes guaranteed to the elderly through OAS and GIS is widely accepted. However, our proposal to double C/QPP benefits has been the subject of intense controversy and debate. Our opponents have argued that the job of replacing pre-retirement earnings should be left to private pension plans. But, these plans suffer from a number of weaknesses that make it impossible for them to replace a substantial part of the pre-retirement earnings for all workers. Only half of the labour force is covered by them, their long vesting periods and lack of portability makes it difficult for workers to maintain pension coverage through time, their benefits are frequently inadequate and seldom indexed. No one has proposed a method of eliminating these deficiencies and the C/QPP suffers from none of these weaknesses.

Throughout the debate on pension reform no one has tried to argue that there is a more effective or less costly way of improving the

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retirement incomes of the elderly than an increase in C/QPP benefits would provide. Indeed the arguments against an increase in C/QPP benefits have focussed almost exclusively on the supposedly negative economic side effects of increasing public pension benefits. However, the prevailing view in the theoretical debate and the empirical evidence suggests that these supposedly negative effects do not exist.

There are no technical or economic reasons for failing to increase public pension benefits. Ultimately the entire argument concerning the cost of public pension benefits comes down to the philosophical question whether guaranteeing adequate retirement incomes to middle and low income earners is worth the cost. Our own answer to this question, and the answer that has been given in most industrialized countries, is an unequivocal "yes".

The case in favour of increased public pension benefits is undeniable. We will elaborate on this case and discuss the issues related to this case in the remaining sections of the document.

While the most important thing that can come out of the current process of pension reform is an increase in public pension benefits, the reform process must not stop at that point. The design of public pension plans in Canada needs to be reformed to take account of the needs of women, immigrants and the disabled. It is a matter of the greatest importance to us that the C/QPP be amended in a fashion that would make it more sensitive to the unique career patterns of women and would recognize the equal contribution

of both spouses to a household's income earning capacity. In addition, since private pension plans will continue to exist even if C/QPP benefits are doubled, it is important that the regulations governing them be amended with several objectives in mind - namely: increasing their fairness to women workers; eliminating unintended subsidies from retirees and workers with vested benefits to the plans as a whole; enhancing the legal rights of plan members and their collective bargaining agents under private pension plans; and defining the financial obligations of employers in a way that prevents them from reaping unintended windfall gains from the experience of the plan.

There is one final point that cannot be emphasized too strongly. The great debate on pension reform that has raged for the past half dozen years has given the impression that the major issues in the debate are technical issues. They are not. At the risk of being repetitive, the major issue is philosophical: are Canadians going to guarantee adequate retirement incomes to middle and low income earners? If the answer to this question is yes, there is no alternative to an increase in public pension benefits.

Section II: A Proposal for Pension Reform

(1) Introduction

The debate on pension reform that has gone on in Canada for the past seven years has been dominated by technical arguments. The proper methods of financing public and private pension plans, the economic side effects of different funding methods, the means of introducing inflation protection into private pension plans, and many other technical issues have been debated at great length.

Despite the technical appearance of the debate, the fundamental issue that has been at stake throughout the debate is the economic status of the present and future elderly in Canada. As the debate is brought to a conclusion, the ability of the population over 65 to share in Canada's prosperity will be determined. The question whether society will guarantee adequate retirement incomes to the elderly or whether it will leave this in large measure to the luck of individuals, as Canada has in the past, will also be decided.

In coming to grips with these fundamental issues, the philosophical questions that arise are even more important than the technical issues. We have not ignored the technical issues: indeed our proposals are just as defensible on technical grounds as they are on philosophical grounds. Nonetheless, it is the case that our position on pension reform stems from key philosophical points of departure.

We believe that every worker should be able to look forward to a period at the end of their working life when they no longer have to rely on employment for wages or salaries in order to enjoy an adequate retirement income. The right to enjoy a full and active family, social and community life requires an adequate income which should not have to be derived from gainful employment after age 65. Society has a responsibility to make sure that arrangements are in place that will allow people to have an active and satisfying period of retirement. It is the least that can be offered to the people who have laid the foundation for Canada's economic prosperity and its political and cultural vibrancy that succeeding generations will enjoy.

If Canadians are to enjoy the kind of retirement period that we envisage, they must have retirement incomes that satisfy three standards of adequacy:

1) they must be above the poverty line regardless of their pre-retirement earnings or any other circumstance in their life;

2) they must be large enough in relation to pre-retirement earnings so that a person can move from work to retirement without suffering a decline in their standard of living; the rule of thumb that we have used is that retirement earnings must replace 75 per cent of pre-retirement earnings; and

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3) retirement incomes must be indexed to the cost of living.

Two of these standards deserve a word of elaboration.

Because there has been so much controversy about pension indexing in recent years, it is worth illustrating the importance of pension indexing. Imagine a woman worker retiring at age 65 in 1962 with a retirement income of $400 per month that is not indexed. Her life expectancy would be approximately 18 years and her retirement income would have been adequate by both of the other standards if we assume that she earned approximately the average industrial wage (AIW) before retirement. Yet, 18 years later, inflation would have reduced the purchasing power of her pension to only 36 per cent of its former value. She would be living in poverty and certainly not maintaining the standard of living she enjoyed before retirement. Clearly pension indexing is not an extravagant frill; it is an absolutely essential element in an adequate retirement income.

With regard to replacing pre-retirement earnings, two comments are necessary. Because many households in the past have arranged their affairs so that one spouse was employed for income and the other was not, our concern with income replacement cannot end with replacing pre-retirement earnings. Nearly half of the over 65 population is single and more than half of this number are widows. We must insure that surviving spouses will be able to maintain the standard of living of two retired spouses and this means insuring that a surviving spouse has at least 60 per cent of the income of a retired couple.

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Finally, while we regard the replacement of pre-retirement earnings as a valid objective of the Canadian pension system, we believe that society's responsibility in this regard should be limited for two reasons. First, there is the practical consideration that people with high levels of pre-retirement earnings are more likely to be in a position to make provision for their own retirement than people with low incomes. Second, there is the more philosophical point that replacing pre-retirement earnings reproduces in retirement all of the income inequalities that exist prior to retirement. In view of the fact that women earn less than men, it should be apparent that as society takes responsibility for replacing higher levels of earnings, women workers derive less and less of the additional benefits. In view of these considerations, we have accepted the average industrial wage as the upper limit on society's responsibility for replacing pre-retirement earnings. (The AIW in 1981 was approximately $18,500 per year.)

(2) The Need for Pension Reform

If the incomes of the current elderly population are judged by the standards of an adequate retirement income set out above, then the Canadian pension system must be condemned as a failure. As of 1979, 56.8 per cent of single elderly women and 49.2 per cent of single elderly men were living on incomes of less than $5,000 per year, which is less than the Statistics Canada poverty line for single people living in Canada's largest cities. Among families of two or more people with a chief income earner over

65, 15.0 per cent of those headed by a male had incomes of less than $7,000 and 18.1 per cent headed by females were in this position: .$7,000 is less than the Statistics Canada poverty line for two person family units in Canada's largest cities. We can also note that more than 50 per cent of the current recipients of the Old Age Security (OAS) are receiving benefits from the Guaranteed Income Supplement (GIS) which pays benefits to the low income elderly.

Direct evidence on the decline in people's living standards as they move from work to retirement is not available. Nonetheless, three things tell us that most Canadians likely face a significant decline in their standard of living as they move from work to retirement:

- the very large number of low income earners among the elderly compared with the non-elderly indicates that many people moved into the low income category at retirement;

- an indirect measure of the comparative standard of living of people just before and after retirement that was developed by the federal government interdepartmental (Lazar) task force on retirement income policy suggests that a broad range of middle income earners suffer a significant decline in their standard of living when they move from work to retirement;

- in 1979, the median income of 65 to 69 year olds was only 60 per cent of the median income of 55 to 64 year olds.

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As far as indexing is concerned, most Canadians face a situation in which the only portion of their retirement income that is guaranteed to increase with the cost of living is income from OAS, GIS and the Canada and Quebec Pension Plans (C/QPP).

To some degree, the deplorable income situation of the current elderly can be blamed on pension arrangements that were in place in the past. The comments made above will no doubt be influenced by events such as:

- two increases in GIS benefits made in 1979 and 1980
- a growing portion of the elderly will be eligible for full C/QPP benefits in the future: the plan was only introduced in 1966 and full benefits only became payable in 1976
- there has been a small increase in the percentage of paid workers covered by private pension plans over the past decade and improvements have been made to these plans
- an increasing number of women are participating in the paid labour force and they will be earning C/QPP benefits in their own right and they may also earn private pension entitlements.

Despite these obvious reasons for believing that the retirement income situation of the future elderly will be better than the situation for the current elderly, these changes will not guarantee that all of the elderly will have adequate incomes as defined above.

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Together, the OAS and GIS programs are the only means available to guarantee that all of the elderly have incomes above the poverty line. As matters currently stand, these two programs provide combined benefits that will guarantee that a couple will have an income above the poverty line in an average sized Canadian city. But the benefits available to the 45 per cent of the elderly who are single do not even meet this standard. Moreover, from our point of view the standard that should be met is the poverty line in Canada's largest cities since the elderly in these cities should not be allowed to live in poverty. By this standard neither the single elderly nor elderly couples are guaranteed incomes above the poverty line. (See: Table 1.)

As far as income replacement for the future elderly is concerned, the Lazar task force developed a computer model to simulate the effects of people working their entire adult lives under the pension system as it exists now. The conclusion to this work was that:

> ...somewhere between one-third and one-half of those now under 65 who are in the middle income group will encounter significant reductions in levels of well-being upon retirement when all retirement income sources - as well as changes in consumption patterns, tax treatment, and so on - are taken into account. (Vol. I, p. 119)

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TABLE I

Benefits From Government Retirement Income Programs, 1981
(A comparison with poverty lines and the average industrial wage)

	Single	Couple
Old Age Security	$ 2,600	$ 5,200
Guaranteed Income Supplement	2,600	4,000
OAS + GIS (minimum income guarantee)	5,200	9,200
Statistics Canada Poverty Line		
Cities 500,000 +	6,600	9,500
Cities 100,000-499,999	6,145	8,910
Canada/Quebec Pension Plans		
Maximum 1981	3,300	6,600
OAS + C/QPP	5,900	11,800
Average Industrial Wage	18,500	37,000
OAS + C/QPP ÷ AIW	31.9%	31.9% (2 earner 45.9%*(1 earner

* This case assumes that one spouse worked for earnings at the AIW and the other spouse had no earnings.

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The task force itself acknowledges that these estimates may overstate the percentage of workers who will be able to maintain their standard of living as they move from work to retirement. All of the available evidence suggests that a substantial percentage of workers covered by the existing pension system will have little or no private pension benefits at age 65 and will have to rely exclusively on inadequate public pension benefits. Moreover, full indexing to the CPI will still only be available to most Canadians from OAS, GIS and the C/QPP.

The need for pension reform is clear. The income situation of the current elderly is a disgrace and while it should improve somewhat for the future elderly, the pension arrangements currently in place will still not provide all elderly Canadians with an adequate retirement income. The case for pension reform is so strong that even the most die-hard defenders of the pension status quo willingly admit the need for reform. This was clearly demonstrated at the federal government's National Pension Conference (March 1-April 2, 1981), which included delegates from all sectors of society, where no one had the temerity to argue that the status quo is acceptable. The real issue is the nature of the reform that is required.

(3) Improving the Minimum Income Guarantee to the Current Elderly

Throughout the pension debate there has been little disagreement about the fact that the OAS and GIS programs will have to be relied on in order to insure a minimum level of income to all elderly Canadians. There has been little argument either about the need to

increase the minimum income guaranteed to the single elderly. There has, however, been disagreement about the need to increase the minimum income guaranteed to couples. If one uses the Statistics Canada poverty line for average sized cities as the benchmark for judging the adequacy of OAS and GIS guarantees to couples, then the current benefit levels are adequate. But if one uses the poverty line for large cities, as we think is appropriate, then an increase in the income guarantee to elderly couples is also required. From our point of view, using the poverty lines for medium sized cities is tantamount to saying that the elderly in Canada's largest cities can be left in poverty.

There has also been some debate as to whether benefits from OAS or GIS or both should be increased in order to provide an increase in the minimum income guaranteed to the elderly. A conventional wisdom on this question suggests that because the GIS is income-tested it can provide greater benefits to the elderly who are most in need at a lower cost than OAS can: therefore, all of the increase should be made in GIS benefits. Unfortunately this conventional wisdom overlooks two important things.

The OAS program has an important role to play not only in guaranteeing a minimum income to the elderly, but also in supplementing the C/QPP as a way of replacing pre-retirement earnings. Moreover, because the OAS is only price indexed and wages and salaries normally grow faster than prices, the ability of OAS to perform a role in income replacement has been diminishing over time. Thus, in 1964, the OAS represented approximately 20 per cent of the average industrial wage whereas today it represents approximately 14 per cent of the AIW.

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In addition, the GIS pays maximum benefits to people with no retirement income other than OAS and reduces GIS benefits by $1 for every $2 of additional income. This arrangement not only reduces the value of C/QPP and other retirement income to GIS recipients, but it also has another important effect. Every time the GIS benefit is raised by, say $10, the income level up to which some GIS is paid grows by $20.

It is very important to us that workers should be able to retire after a full life in the labour force and get enough from OAS and the C/QPP so that they do not have to rely on GIS benefits. We are not alone in thinking this way: this point was made by many delegates to the National Pension Conference. Yet every time GIS benefits grow larger in relation to OAS and the C/QPP, it becomes increasingly difficult to realize this objective. We now face the completely untenable situation in which a single worker retiring with a full OAS benefit and the maximum possible C/QPP benefit, is still entitled to a GIS benefit of approximately $75 per month. If ever there was a testimony to the inadequacy of OAS and C/QPP benefits, this is it.

In view of the foregoing the Congress is calling for an increase in both OAS and GIS benefits. We believe that the OAS should be increased immediately by 25 per cent so that it would represent approximately 17½ per cent of the average industrial wage and that the benefit level should be reviewed every five years so that it would continue to

represent approximately 17½ per cent of the AIW. We believe that the maximum GIS for singles should also be raised by 25 per cent and that the maximum GIS for couples should be raised by 11.5 per cent. This would bring the minimum income guaranteed to singles and couples above the Statistics Canada poverty line for large cities. Again, GIS benefit levels should be reviewed every five years to insure that OAS and GIS benefits remain above the poverty line. (See: Tables 1 and 2)

(4) Guaranteeing an Adequate Replacement Income that is Fully Indexed to the Cost of Living

The wide areas of agreement that have marked the debate on improving the minimum income guarantee to the retired population have not been present in the debate on how to guarantee that all workers will enjoy an adequate degree of fully indexed replacement income. In this area there are two broadly defined schools of thought. The first is that the system of private or occupational pension plans operating as they currently do, or under a revised set of regulations, can meet this objective. The second school of thought argues that this objective can only be met if the benefits available from the Canada and Quebec Pension Plans are increased. The Canadian Labour Congress is a firm adherent to the second school of thought.

The CLC's adherence to the second school of thought can best be understood if we think for a moment about the type of pension program that workers need if they are to be guaranteed an adequate degree of fully indexed replacement income. Key features of a pension program that would meet the objective would include:

1) being covered by a pension program at particular periods of one's working life;

2) being able to maintain pension coverage throughout one's working career;

3) belonging to a pension plan that ties benefits to one's earnings at or near the time of retirement;

4) having benefits that are indexed to the cost of living;

5) providing benefits to surviving spouses.

When the C/QPP is compared with private pension plans even under amended regulations, the superiority of the C/QPP becomes evident. Taking each key element in turn, the following contrast emerges:

Coverage at particular points during one's working life:

C/QPP - Virtually the entire paid labour force with earnings from employment and self-employment that amount to 1/10 of the AIW are covered by the C/QPP.

Occupational pensions - As of 1980, the percentage of all paid workers covered by private pension plans was 44.3 per cent. This represents only a 4.2 per cent gain over 1970.

Defenders of the private pension system have complained that these statistics are unfair to private pension plans because they include a number of groups with low pension coverage that do not need pension coverage. The groups mentioned include: part-time workers, workers who earn less than the AIW, and workers under 25. By eliminating these groups from their calculations, defenders of the private pension industry come up with higher percentages of the paid labour force covered by private pensions.

Even if the statistical manipulations of the private pension industry have a degree of validity, two points remain unresolved: 1) some of the groups excluded by their manipulations need pension coverage - especially permanent part-time workers who are most frequently women; and 2) private pension coverage falls far short of C/QPP coverage.

Because of the limited coverage of private pension plans, amendments to the regulation of private pension plans will provide no benefits to the large portion of the paid labour force that is not covered by private pension plans.

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Maintaining pension coverage through time:

C/QPP - A single valid contribution to the C/QPP entitles a worker to a retirement benefit at age 65. The level of earnings on which each year's actual contributions are made is updated at the time benefits are due to be paid to reflect the growth in average earnings between the time when contributions are made and the time when benefits are paid. In other words, every contributor's benefit credits are wage indexed up to the time of retirement. The C/QPP is fully portable within Canada which means that changing employers within Canada does not interfere with the continuity of one's coverage by the plans.

Occupational pensions - Maintaining private pension coverage throughout one's working life is difficult for several reasons. Even if a worker is covered by a pension plan at a particular moment in time, problems arise if the worker changes jobs before reaching retirement age. Most pension plans include rules that say that if a worker leaves the employer or group of employers that are sponsoring the plan before retirement age, then no benefit will be paid to the worker at retirement age unless they have met certain age and/or service requirements. These rules are known as vesting rules and the most common vesting rule in Canada is 10 years of service. Thus, a worker could be covered by a private pension plan throughout his or her working life but get no benefit at age 65 if he or she changed jobs every nine years. The Report of the Royal Commission on the

Status of Pensions in Ontario includes the estimate (Vol. II, p. 42) that a male worker with an average rate of job turnover who was continuously covered by private pension plans with 10 year vesting periods from age 20 to 65 would be likely to accumulate only 29.4 years of pensionable service.

Even if a worker is lucky enough to have a vested benefit when they leave their place of employment, their vested benefit is usually not protected against inflation.. Over the long period of time that might separate the date of terminating employment under a particular plan and the date of retirement, the value of a vested benefit might shrink to a trivial level. A worker who left a job at age 35 in 1951 would find that the purchasing power of his or her vested benefit had shrunk to less than 1/3 of its original purchasing power by retirement age.

Portability arrangements are very rare among private pension plans. Where they exist they normally deal only with changes of jobs within a particular industry or economic sector.

During the course of the great pension debate it has been suggested that some of the worst features of private pension plans with regard to maintaining pension coverage through time could be dealt with through amendments to the regulations governing private

pension plans. For example, it has been suggested that the maximum allowable vesting period be reduced to as little as two years of service. It has also been proposed that the value of vested benefits should have to be increased according to what is known as an excess earnings formula. (The basic idea underlying an excess earnings formula and its weakness compared to automatic indexing are discussed on pp. 20-21, 135-136.)

Changes to the regulations governing private pension plans of the sort just mentioned are certainly positive steps in their own right. But they are no match for the immediate vesting, full portability, and automatic adjustment of earnings records under the C/QPP.

Relating benefits to earnings at or near the time of retirement:

C/QPP - Benefits under these plans are automatically related to the maximum pensionable earning under the plan during the year of retirement and the two previous years.

Occupational pensions - 15.3 per cent of all private pension plans covering 58.2 per cent of all private plan members automatically relate benefits to earnings just before retirement according to final or best average earnings formulas. In the private sector, 14.8 per cent of plans are of this type and 29.3 per cent of plan

members belong to this type of plan. In other types of private pension plan there is no definite relationship between the basis on which benefits are paid and a worker's earnings at or near the time of retirement.

Indexed benefits:

C/QPP - Benefits under these plans are fully indexed to the growth in consumer prices.

Occupational plans - In the public sector it is common to find some formal provision for inflation protection although inflation protection is typically subject to limitations. In the private sector, formal inflation protection is rare and is largely confined to plans set up for corporate executives. In large private sector plans it is not uncommon to find plan sponsors making adjustments to pensions on an ad hoc basis.

The obvious shortcoming of private pensions with regard to inflation protection has prompted the proposal that the regulations to private plans require the adjustment of benefits according to an excess earnings formula. This approach to inflation protection does not guarantee a specific degree of inflation protection and is unlikely to produce the equivalent of full CPI indexing in most instances. In addition, all of the risks associated with providing

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inflation protection are borne by the recipients of benefits and not by the plan sponsor. Inflation protection provided by an excess earnings formula does not provide the same guarantees as the full and automatic indexing to the CPI that is provided for in the C/QPP.

Survivor benefits:

C/QPP - Benefits are paid automatically to survivors in addition to unreduced retirement benefits.

Occupational plans - In the public sector survivor benefits are often provided automatically in addition to unreduced retirement benefits. In the private sector survivor benefits normally have to be chosen as an alternative to a pension paid for the life of the plan member only. Moreover, chosing the alternative of a survivor benefit reduces the amount of benefit paid during the lifetime of the plan member.

During the pension debate, it has been suggested that benefits to survivors be made mandatory subject to a waiver by both spouses in favour of a higher benefit paid during the life of the plan member only. The Government of Saskatchewan has already incorporated this provision into its legislation governing private pensions. But, it is important to note that, unlike the C/QPP, the implementation of this provision may reduce the benefits paid during the lifetime of the plan member.

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In addition to the relative merits of the C/QPP just noted, several other points are worth making. The C/QPP provides disability benefits which are only found in some occupational plans. The C/QPP can deal with limited periods spent outside the labour force without reducing benefits through their "drop-out" rules. Occupational plans do not and probably cannot include this important feature. Finally, in considering the potential benefits that might flow from changing the regulation of private plans, it must be remembered that one of the ways that plan sponsors will respond to the increased costs associated with amended regulations is by reducing the basic benefit levels promised under their plans. We do not know the degree to which this will happen, but we do know that there will be some offset to the additional benefits that amended regulations might otherwise bring.

From the foregoing, it should be clear why the Congress prefers the C/QPP over occupational pension plans as a way of guaranteeing an adequate degree of fully indexed replacement income to middle and low income earners. Indeed, it is striking that throughout the debate on pension reform, no one has tried to argue that there is a superior way of delivering indexed replacement income to the elderly. Those who have argued against increased C/QPP benefits have relied chiefly on arguments about its cost which are discussed below.

Despite the general superiority of the C/QPP to occupational pension plans, our review of pension policy has led us to call for a number

of changes to the C/QPP. Many of these are discussed in the next two sections and deal specifically with problems of women and immigrants. However, some of the changes that should be made to the C/QPP will be noted here.

By far the most important change that needs to be made to the C/QPP is an increase in the percentage of pre-retirement earnings that are replaced by the C/QPP from 25 to 50 per cent. This new benefit level should be phased in as if the retirement benefit had continued to increase at a rate of 2½ per cent per year after 1976 as it did over the period 1967-76. The new benefits would be fully phased-in by 1986 and retroactive increases would be made to retirement benefits initiated after 1976. A rapid phasing-in of increased C/QPP benefits with a degree of retroactive application is justified on two bases. First, it would allow current retirees to share to some degree in the increased benefits being promised to future retirees. Second, it would reduce the degree to which the C/QPP contribution rate would have to increase in the future to support the new benefit level under the modified pay-as-you-go funding basis that is currently used by the C/QPP.

Also, while the yearly maximum pensionable earning (YMPE) under these plans is currently targeted to catch up to the average industrial wage, it still lags somewhat behind the AIW. In 1981 the YMPE represented only 80 per cent of the AIW. We would recommend that the YMPE be raised immediately to the level of the AIW and be indexed to it in future. We would further recommend the C/QPP benefits be calculated

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on the basis of the YMPE during the year of retirement as opposed to the year of retirement and the preceding two years.

In Table 2 on pp. 27 and 28, we have calculated the effects of these proposed changes to the C/QPP. As is indicated there, these measures would meet the income replacement needs of most middle and low income workers. In looking at the data in Table 2, one important point should be borne in mind. Because one earner-couples receive two OAS benefits at age 65 even though there is only one pre-retirement income to replace, the replacement income from OAS and the C/QPP that is available to a one-earner couple will substantially exceed the replacement income available to an individual with the same earnings or a two-earner couple, each of whom has the same earnings. Moreover, it has also been common to analyze the adequacy of replacement incomes using a one-earner couple as the model for judging adequacy. Using a one-earner couple as a model for judging adequacy, a 50 per cent replacement rate under the C/QPP might appear to be too generous. However, we have rejected this conclusion for several reasons.

In the first place nearly half (45 per cent) of the current population over 65 is made up of widows and widowers and this percentage is expected to grow in the coming years. In addition, the growing number of divorces in Canada and the increasing participation of married women in the paid labour force means that fewer and fewer people will be reaching age 65 as members of one-earner couples. In other words, judging the adequacy of replacement incomes on the basis of one-earner couples who are presumed to live out their retirement years together, does not deal with the actual marital status and income earning experience of the current or the future elderly.

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It should also be noted that because the survivor and disability benefits under the C/QPP are linked to the level of retirement benefit paid by the C/QPP, they would automatically increase with an increase in the retirement benefit. However, the formula now used for calculating disability benefits provides a lower degree of income protection in the event of disability than in the event of retirement. We would like to see this situation corrected so that the degree of income protection in the two events is identical.

Finally we are concerned that the inflexible nature of the age of eligibility for C/QPP benefits is denying benefits to people who are forced into retirement prior to age 65 through no fault of their own. In this regard we are particularly concerned about people who are involuntarily retired after age 60 because of long periods of unemployment that result from plant closures or lay-offs or because of ill health. At present the C/QPP will provide disability benefits prior to age 65 but only in cases of total and permanent disability and only if a person is left incapable of any gainful employment. Otherwise the only public income protection available to these people is unemployment insurance and social welfare. Yet for all intents and purposes, people who leave their jobs for the reasons mentioned are involuntarily retired; their chances of getting gainful employment are all but non-existent. While we recognize that a great deal of work needs to be done to determine precise rules of eligibility, we believe that people who have been involuntarily retired after age 60 due to ill health or long periods of unemployment should have full public pension benefits available to them.

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TABLE 2

A Comparison of Annual Public Pension Benefits Available in 1981
Under the Current System and CLC Proposals

(All benefit levels are rounded to the nearest $100)

Level of Pre-Retirement Earnings	50% AIW		100% AIW		150% AIW	
Marital Status and Program	Current System	CLC Proposal	Current System	CLC Proposal	Current System	CLC Proposal
Unattached Individual						
OAS	2,600	3,300	2,600	3,300	2,600	3,300
CPP	2,300	4,600	4,600	9,300	4,600	9,300
GIS	1,500	1,000	300	0	300	0
	6,400	8,900	7,500	12,600	7,500	12,600
Replacement Rate	69%	96%	41%	68%	27%	45%
Two Earner Couple	(2 x .5 AIW)		(1.0 AIW + .5 AIW)		(1.5 AIW + .75 AIW)	
OAS	5,200	6,600	5,200	6,600	5,200	6,600
CPP	4,600	9,200	6,900	13,900	8,100	16,200
GIS	1,700	0	600	0	0	0
	11,500	15,800	12,700	20,500	13,300	22,800
Replacement Rate	62%	85%	46%	74%	32%	55%
Survivor (low earner)						
OAS	2,600	3,300	2,600	3,300	2,600	3,300
CPP	3,200	6,900	4,100	10,400	5,200	12,150
GIS	1,000	0	600	0	0	0
	6,800	10,200	7,300	13,700	7,800	15,450
% Pre-death Income	59%	65%	57%	69%	59%	68%
One Earner Couple						
OAS	5,200	6,600	5,200	6,600	5,200	6,600
CPP	2,300	4,600	4,600	9,300	4,600	9,300
GIS	2,800	2,200	1,700	0	1,700	0
	10,300	13,400	11,500	15,900	11,500	15,900
Replacement Rate	111%	145%	62%	86%	41%	57%
Survivor (non-earner)						
OAS	2,600	3,300	2,600	3,300	2,600	3,300
CPP	1,400	3,500	2,800	7,000	2,800	7,000
GIS	1,900	1,500	1,200	0	1,200	0
	5,900	8,300	6,600	10,300	6,600	10,300
% Pre-death income	57%	62%	57%	65%	57%	65%

Notes: GIS benefits were calculated assuming no private income.

Current CPP benefits were calculated as if benefits were 25% of earnings up to the average industrial wage.

Benefits under the CLC proposals do not take specific account of a special drop-out rule or credit splitting except insofar as the latter influence survivor's income.

Earnings levels for the two earner couple are: 1) both spouses earning at one-half the AIW; 2) one spouse earning at one-half the AIW and the other at the AIW; 3) one spouse earning at one and a half AIW and the other at 3/4 the AIW.

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Section III: Women and Pension Reform

(1) Introduction

A pension system that dealt fairly with women would, at the very least, provide all women over 65 with an adequate retirement income as defined above. But, it should do more than this. The pension system should also recognize the equal and joint contribution of both spouses to a couple's earnings and it should recognize the desirability of married women having retirement incomes that are theirs in their own right. In addition, for women who enter the labour force, the pension system should not penalize women for their temporary departures from the labour force or their taking part-time work which frequently results from the child-rearing and other family obligations that have traditionally been imposed on women. Women who enter the labour force and contribute to pension plans at the same level as their male counterparts should be able to count on the same level of pension benefits as men receive. Finally, the pension system should encourage labour force participation by women.

The widespread poverty among elderly women that was noted above is a clear indication that standards of an adequate retirement income are not being met for older women. Their incomes do not satisfy the minimum income standard nor do they meet the income replacement standard since we know that such a large portion of women are not living in poverty before they reach old age and become widowed.

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When we look at the pension reform proposals included in the previous section of this document, it is evident that they would go some distance in correcting the deplorable income situation of older women. The OAS and GIS increases proposed above would guarantee that all older women would have retirement incomes above the poverty line. Moreover, because these programs pay benefits to individuals based solely on a person's age, years of residence in Canada, and income in the case of GIS, women face no special discrimination under them. Certainly there is no question about women receiving OAS and GIS benefits in their own right at a level that is equal to men in similar circumstances.

The C/QPP benefit increases proposed in the previous section are also particularly important to women. For women who enter the labour force, the chances of getting a retirement benefit from the C/QPP are substantially greater than they are from private pension plans. Women suffer particular hardships as a result of the limitations of private pension plans:

- only 34.6 per cent of paid women workers are covered by private pension plans compared to 50.6 per cent of men; part of the reason for this is that women are almost three times more likely than men to be part-time workers who are often excluded from private pension coverage;

- women change jobs much more frequently than men and therefore suffer from the long vesting periods, lack of indexing of vested benefits, and lack of portability among private plans;

- women live longer than men and therefore suffer more from the lack of indexing of benefits being paid.

By way of contrast, the inclusion of virtually all paid workers, the immediate vesting, and full portability and indexing in the C/QPP are important advantages of these public programs .

Even for women who never enter the paid labour force, the increase in C/QPP benefits is not irrelevant. At the very least, the chances of an adequate replacement income flowing into the household based on their spouse's C/QPP retirement benefit are dramatically increased. Moreover, in the likely event that a women's husband dies before she does, the C/QPP guarantees a survivor over 65 a benefit of 60 per cent of the deceased contributor's retirement benefit. An arrangement whereby the only entitlement that a woman has to a C/QPP benefit in her own right is a survivor benefit is not satisfactory, but from the narrow perspective of maintaining her standard of living, the increase in C/QPP benefits called for above is certainly relevant. To this point in our history, one of the problems faced by elderly women has been that their husbands have had inadequate replacement incomes in retirement and when their husband's died, there was frequently no survivor's benefit in their husband's private pension plan. Even with none of the changes proposed below, an increase in C/QPP benefits improves this situation.

While the increase in OAS, GIS and C/QPP benefits would definitely improve the retirement incomes of women, a great deal of unfairness would still remain in the pension system. In private pension plans, the long vesting periods, exclusion of part-time workers, and so on, which are manifestly insensitive to women's career patterns will remain. So too will the lack

of survivor benefits which cause such havoc with incomes of the widows of one-earner couples.

As far as the C/QPP is concerned, the equal and joint contributions of both spouses is not recognized by these plans. In a one-earner couple, the spouse who had earned income prior to retirement - typically the husband - receives a retirement pension in their own right. The spouse without an earned income - typically the wife - receives nothing in her own right unless and until the income earner dies, in which case a survivor's benefit is paid. It is striking that if the spouse who earned the income dies first, the survivor is expected to live on a portion of the retirement benefit of the income earner. But, if the non-earner dies first, the income earner continues to receive the full retirement benefit for their lifetime. This hardly constitutes equal treatment of two spouses who have shared the same standard of living prior to the first death in the couple.

Also, while the immediate vesting, full portability and so on of the C/QPP allow these plans to deal less harshly with women's career patterns, the CPP makes no special provision for women who are forced to leave the labour force in view of child-rearing or other family responsibilities. Like their male counterparts, women are allowed to drop a limited period of little or no earnings from the record of earnings on which their CPP retirement benefit will be based. The maximum period that can be dropped is 15 per cent of the years between age 18 (or 1966, whichever came later) and age 65. In effect, this means that a worker who was under 18 in 1966 can drop out of the labour force entirely for seven years and suffer no reduction in their CPP benefit. But

for a woman with a long-term commitment to earned employment, the period spent outside the labour force rearing children or looking after elderly or disabled relatives may be longer than seven years. If the period spent outside the labour force exceeds seven years, then the women would have a number of years of little or no earnings entered into the calculation of her CPP benefit. This seems particularly unjust in view of the fact that the family support functions being performed in the rearing of children and tending of disabled and elderly relatives are of definite value to society.

(In fairness it should be noted that the Quebec Pension Plan allows parents to drop periods of little or no earnings spent tending children under seven from the earnings record on which their retirement benefit is based. The Government of Canada proposed a similar amendment to the CPP but the Government of Ontario has blocked its adoption.)

In formulating proposals that would improve the fairness of the pension system for women, several considerations have imposed constraints on what we have recommended and these should be noted explicitly:

1. As long as income replacement is recognized as a valid objective of the retirement income system and programs based on pre-retirement earnings continue to operate, then the generally lower earnings of women before retirement will show up as lower benefits after retirement. This tendency can be limited by raising the flat rate OAS and by keeping the lid on the maximum level of earnings replaced by the C/QPP as we have proposed.

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Nonetheless, it is an inescapable fact that equal pensions for men and women will depend not just on pension reform but also on the struggle for equal pay for work of equal value, female access to traditionally male occupations, and the provision of adequate day care.

2. In considering ways of including homemakers directly in the earnings related C/QPP one of our concerns was to try to find a scheme that would eliminate the "economically dependent" status of homemakers under the C/QPP. However, in the work of other people and in our own work we neither encountered nor devised a scheme that eliminated the "economically dependent" status of homemakers. In most schemes that would include homemakers directly in the C/QPP, homemakers are dependent on their spouses earnings as a source of contributions; and, in some proposals the dependency runs deeper as the husband's earnings would establish the basis on which the homemaker's pension would be determined. (More will be said of these proposals below.) After giving a great deal of thought to the matter, one of the conclusions that struck us as inescapable is that women's independence in the sphere of pensions will only be a reality if women are independent income earners prior to retirement.

3. We have proposed changes to both the C/QPP and the regulations governing private or occupational pension plans in order to improve their fairness to women. However, we have pushed this issue much

further with regard to the C/QPP than we have with regard to private pension plans. Part of the reason for this is that we view the C/QPP as the primary source of indexed replacement income for Canadians and in that sense we view it as a more important element in the pension system to reform. In addition, the private contractual nature of private pensions leaves us somewhat less confident about imposing all of the standards on them that are appropriate to public plans.

(2) Reforming the C/QPP

Two of the features of the C/QPP that are most in need of reform have already been mentioned. The insensitivity of the CPP to the need of women to withdraw from the labour force in order to raise young children should be addressed by having the CPP adopt the same type of "child drop-out" rule that is currently in place in the QPP. The Economic Council of Canada has estimated that the child "drop-out" rule would increase the net benefits (benefits minus contributions) of an average woman contributor by 22 per cent. In addition, both plans should extent special drop-out provisions to cover periods of little or no earnings that result from withdrawing totally or partially from the labour force in order to care for elderly or disabled relatives. This type of family responsibility typically falls to women and, like the raising of children, it is a function that provides a real benefit to society. Women should not be penalized under the C/QPP for performing this function.

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The C/QPP should also recognize the equal and joint contribution of both spouses to a couple's earnings. This principle has already been recognized in the context of divorce. In a divorce, if either spouse applies for it within a three-year period after formal dissolution of a marriage, the C/QPP earnings record of the couple that arose during their marriage will be totalled and divided by two. In short, the equal and joint contribution of both spouses to the couple's earnings will be recognized even in situations where one spouse had no earnings. In our view, this principle should be extended to all marriage situations regardless of whether a divorce takes place. In order to minimize the tax burden of the couple, credit splitting of the sort that now takes place on divorce should take place when the younger spouse in any couple reaches age 65. Raising the replacement rate under the C/QPP from 25 to 50 per cent will insure that an adequate degree of indexed replacement income will flow into the households of middle and low income retirees and credit splitting will insure an even distribution of their retirement income. Even spouses who never entered the paid labour force, will be entitled to an indexed benefit that is tied to the earnings on which their standard of living has been based prior to age 65.

One of the consequences of credit splitting is that the survivor in a couple that has had their credits split is already entitled to a retirement income in their own right that amounts to half of the couple's joint retirement benefit. Thus, we would no longer be looking at situations in which survivor benefits were the only benefits being paid to people who

had no pre-retirement earnings. Credit splitting would insure that a retirement benefit was also being paid to people in this situation. As a result there may be a basis for some reduction in the level of survivor benefit that needs to be paid to a survivor over 65. For one-earner couples, the C/QPP benefit to survivors over 65 amounts to 60 per cent of the deceased contributor's retirement benefit. If this benefit rate was applied in addition to credit splitting, the effective survivors benefit would be 80 per cent (50 per cent through credit splitting plus 60 per cent of the deceased contributor's share of the household retirement income.

While credit splitting may reduce the need for survivor benefits to a degree, it does not eliminate it. One of the consequences of a death in a couple over 65 is that one of the two OAS payments coming into a household ends. If the survivor is also forced to rely solely on their share of a split C/QPP retirement benefit, then their total income from these two key programs would be cut in half. Since we believe that survivors need an income of at least 60 per cent of the income of the former couple and since OAS benefits will be cut by half, we would recommend a C/QPP benefit to survivors of 50 per cent of the deceased person's C/QPP retirement pension. For a widow who had never entered the labour force, this would be equivalent to a survivors benefit of 75 per cent of a deceased husband's C/QPP retirement benefit with no credit splitting. However, there is an important difference between the combination of credit splitting and the 50 per cent survivor benefit proposed here, and a 75 per cent survivor benefit with no credit splitting. Our proposal ends the inequitable situation in which a survivor who has contributed to the plan lives on a full retirement benefit that is greater than the survivor benefit to a non-contributing spouse.

Several other features of the C/QPP survivor benefits are in need of amendment. Two that are fairly straightforward are the current rules that: 1) common-law marriages will only be recognized for purposes of determining rights to a survivor benefit if the couple has represented itself as husband and wife; and 2) combined benefits from two parts of the C/QPP (e.g., retirement and survivor benefits) that are payable to an individual cannot exceed the amount of a maximum retirement benefit. Both of these rules should be done away with. The former rule invites lying about one's marital status and seems to be based on outmoded moral views. The second rule should be done away with because it suggests that the C/QPP will guarantee a degree of income replacement in the event that people move from work to retirement, but it will not guarantee the same degree of adequacy to a surviving spouse in the event that a plan member dies.

Another area where the C/QPP needs amending is with regard to survivor benefits paid to survivors under 65. In this area, both the C/QPP and the issues are more complicated than they are with regard to benefits to survivors over 65.

For purposes of this discussion, the lump sum death benefit that is paid to survivors regardless of age will be ignored and we will only be concerned with the continuing monthly benefit that is payable to survivors under 65. Presently the continuing benefit has a flat rate component that is paid to a survivor regardless of the earnings level of the deceased contributor. The flat benefit amounts to $70.68 per month under the CPP, and

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$181.18 per month under the QPP. The continuing benefit also includes a component which is 37½ per cent of the retirement benefit that the deceased contributor would have received had they reached 65 at the time they died. Thus the maximum benefit under the CPP would be $186.05 per month and under the QPP it would be $296.55 per month. If a survivor has dependent children the CPP pays an additional $70.68 per month per child and the QPP an additional $29.00 per child.

Benefits calculated in the manner just described would be payable to survivors under 65 in one of two situations:

1) they are over 45; and/or

2) they have dependent children under 18 or under 25 and at school.

In addition, partial benefits are paid to survivors aged 35 to 45 but the benefit determined according to the formula described in the previous paragraph would be reduced by 10 per cent for each year by which the survivor is under 45.

Finally survivor benefits are only paid if the deceased contributor has contributed to the C/QPP for a specific period of time. Simplifying somewhat, the deceased contributor must have contributed for at at least three years and for 1/3 of their contributory period, or have contributed for 10 years.

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There are a number of peculiar things about the benefits to survivors under 65. For one thing it is evident that the continuing benefit to survivors is inadequate to support a survivor at a decent standard of living, and further that the dependent child's benefit seems to be a recognition of this fact. But what began as a widows benefit when the C/QPP began in 1966 was turned into a benefit payable to all survivors in 1975. As a result the plan now pays its inadequate continuing benefit to survivors whose labour force attachment, income earning ability and standard of living may not be the least bit affected by the death of their spouse.

In trying to come to grips with these features of the C/QPP benefit to survivors, we have found ourselves faced with a set of options, none of which are entirely agreeable. As distasteful as it is philosophically, we feel compelled to recognize that some surviving spouses were economically dependent on their spouse and have little chance of becoming employed. Survivors over 45 who have never entered the labour force and who live in remote communities are a case in point. The fact that some survivors are in this situation has led us to reject proposals for a substantial benefit that would end after a short period as some people have proposed. The rationale for this type of proposal is that the survivor benefit should provide a reasonable income during a short period of readjustment to being widowed. We have also rejected proposals that would force a survivor to choose between a large benefit that would be payable for a short period and a low benefit that continues for life. The context in which the choice would have to be made and the uncertainties regarding a survivor's future employment prospects, would make it virtually impossible to count on people making "a good choice".

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It seems to us that survivors who are truly economically dependent should be able to count on a reasonable continuing benefit for their lifetime. On the other hand it makes no sense to us to pay a reasonable continuing benefit to people who have a substantial labour force attachment that is not disturbed by the death of a spouse.

In view of the foregoing, we would suggest, first of all, that the continuing benefit to survivors under 65 afford the same degree of income protection as is afforded to survivors after 65. Thus the flat rate component of the benefit would increase to the level of the OAS and end at age 65 when the OAS begins. The earnings related component would increase to 75 per cent of the joint credits of the two spouses calculated as if they had both reached 65 at the time the deceased contributor died. Half of the joint credits would remain in the earnings record of the survivor and could be added to if the survivor returned to the labour force or entered it for the first time. But, in order to avoid making such a substantial continuing payment to people whose labour force attachment is not likely to be disturbed by the death of a spouse, we would recommend that the current rules of eligibility be supplemented by a labour force attachment test. Such a test should be designed around the principle that people who had contributed to the C/QPP above a certain level of earnings for a certain number of years prior to and including the year of death of the contributor should be counted on to support themselves and, therefore, not receive the continuing benefit. This type of test should also apply to the years after the continuing benefit has begun

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to be paid. In other words, if a survivor establishes a continuous record of earnings above a certain level, the need for the continuing benefit is not clear and a partial or total reduction in the benefit is probably justifiable.

Another feature of the benefits to survivors under 65 that we would like to see changed is the lengthy period over which contributions must be made before survivor benefits are paid. Despite the fact that most short-term contributors would not be entitled to a substantial retirement benefit if they were treated as having reached age 65 at the time they died, the principle that the loss of income associated with death can be as great for short-term contributors as for long-term contributors should be recognized. We would recommend that the current rules be supplemented by a rule that would allow survivor benefits to be paid in any case where a deceased contributor had made two valid contributions during the year of death and the preceding two years.

A final change we want to see made to the C/QPP concerns the division of pension credits on marriage breakdown. As matters currently stand, the splitting of pension credits only takes place if one of the spouses applies for it. Whether credit splitting on divorce is a feature of the plan is not widely known or whether women divorcees get "bought-off" because of their immediate need for cash, only about one per cent of divorces give rise to applications for the splitting of pension credits. Therefore we would recommend that the splitting of pension credits on divorce be made mandatory. Also, while it would be administratively more difficult to implement, credit splitting should also be available in cases where a common-law relationship is terminated.

(3) Homemakers and the C/QPP

One of the most controversial and difficult issues that has arisen during the pension reform debate is the question whether the C/QPP should be amended to permit contributions to be made directly on behalf of homemakers. The underlying rationale for these proposals is that housework is economically valuable to either: society as a whole when it involves the care of children or the disabled; or to a spouse, in other circumstances. In either case, it is economically valuable work even though it does not get paid for, and its economic value should be recognized by the C/QPP by permitting contributions on behalf of homemakers. It is argued in addition that contributions on behalf of homemakers would allow older women to have a retirement pension in their own right.

At an abstract level, we have little difficulty accepting the argument that housework is economically valuable. But, when it comes to applying this argument to the way in which the C/QPP should be organized, a number of problems arise. Some of these relate to the specific proposals that have been made to include homemakers and these will be looked at below. Some of the problems are more general in nature.

One of the curiosities in the discussion of contributions to the C/QPP on behalf of homemakers is the general presumption that we know who it is we want to cover and what work it is that should have a value set on it. When the term homemaker is used, we normally think in terms of women who have withdrawn from the paid labour force. For some women this will be a status that they will have throughout their adult life, while for others this will be

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a temporary status that constitutes an interruption in a long-term commitment to paid employment. For a great many in the latter group, a system of direct contributions on their behalf will likely yield lower net benefits than would special drop-out provisions that allow them to preserve their earned benefits without making contributions. At the very least, this suggests that any proposal for the direct inclusion of homemakers in the C/QPP needs to be reconciled very carefully with the other provision of the C/QPP that are of importance to women such as: the drop-out provisions, survivor benefits and credit splitting.

The idea of placing a value on housework also gives rise to problems. In the case of homemakers who have permanently withdrawn from the labour force, this seems like an obvious thing to do. However, there are more than three and a half million women in the paid labour force who are not only earning C/QPP credits through their paid employment, but most of them are doing a good deal of housework in addition. Yet these women are not included in proposals to have contributions made on behalf of homemakers. It could be argued that these women do less housework and buy more homemakers' services than do full-time permanent homemakers. But this is far from universally true: some low-income women in the paid labour force will buy few homemaker services while permanent homemakers in high income households may buy a great deal of homemaker services. In any event, it seems somewhat extreme to suggest that the housework done by a member of the paid labour force has no value that should be recognized by the C/QPP, while the housework done by someone who has totally withdrawn from the labour force has a value that must be recognized in the C/QPP. The full economic contribution of those women who enter the paid

labour force and do housework too ends up being undervalued in relation to the economic contribution of those women who withdraw totally from the labour force and only do housework. In terms of the standards of an adequate retirement income discussed above, what seems paradoxical about recognizing the value of housework in the C/QPP is that, by implication, there is a need to put a monetary value on housework after 65 but not before 65. In other words, there is a need to replace an income at 65 that was not paid prior to age 65. Another point to bear in mind is that the real income that flows from housework normally does not stop at 65.

Most proposals for direct contributions on behalf of homemakers envisage a husband's earnings as the source from which the contributions will be made. In the absence of any other change to the C/QPP this would give rise to two types of effects that are not very desirable. First, it would only provide benefits in respect of homemaker services of married individuals which does not seem entirely appropriate in an era when one marriage in three ends in divorce. Second, it would aggravate the tendency of the public pension system to provide greater income replacement to couples in which one spouse did all of the earning than it does to either two-earner couples or single individuals (See: Tables 1 and 2). This tendency stems from the fact that the one-earner couple receives two OAS payments despite having only one income to replace. However, it should be noted that the proposal to have contributions made on behalf of homemakers could have a very different impact on single versus married contributors if the contributions on behalf of homemakers were treated as a substitute for survivor benefits. In this case, the contributions on behalf of homemakers would, in effect, be forcing homemakers' spouses to purchase survivor benefits on behalf of homemakers. This would reverse the current

state of affairs under which single contributors subsidize married contributors: currently single contributors pay the same level of contributions as married contributors but only get a retirement benefit whereas married contributors get both retirement and survivor benefits.

In addition, if contributions on behalf of homemakers are introduced along with credit splitting, homemakers will get nothing that does not have to be shared equally with their spouses. The full effect of the contributions will be to increase the degree of replacement income flowing into one-earner households.

It should be clear from the preceding comments that direct contributions on behalf of homemakers raise almost as many problems as they solve which is why the Congress is not advocating direct contributions on behalf of homemakers. We are especially concerned that placing a value on the housework of women who have totally withdrawn from the labour force while not doing the same for the millions of women who are involved in paid employment undervalues the economic contribution of the latter group. We are also sensitive to the fact that a good deal of thought and attention has to be given to the relationship between direct contributions on behalf of homemakers and other features of the C/QPP such as: credit splitting, drop-out rules and survivor benefits. As the foregoing remarks suggest, the full impact of contributions on behalf of homemakers will depend very heavily on how these contributions are related to other aspects of the plan. Despite the fact that most proposals to have contributions made directly

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on behalf of homemakers do not make explicit what the relationship of the contributions is to other features of the C/QPP, some of the proposals will be discussed in order to identify a more particular range of problems.

The proposals to have contributions made on behalf of homemakers are of two general types: the voluntary contributions or imputed earnings approaches. The basic feature of the voluntary contributions approach is that contributions are purely voluntary and the benefit paid to the homemaker depends on the level of contributions made on her behalf. The imputed earnings approaches begin by establishing a level of earnings to be attributed or imputed to the homemaker and then establish the level of contributions and benefits that will follow from the imputed level of earnings.

At the outset, it should be clear that if a voluntary approach is followed, there will be some homemakers who will derive no benefit from the arrangement. As a result there would be great risks in redesigning any of the basic guarantees of the C/QPP - e.g., survivor benefits - in view of voluntary arrangements. The same generalization holds with regard to proposals that would require husbands to make C/QPP contributions if they wanted to claim the spousal deduction on their personal income tax. In this case the tax advantage of making the C/QPP contributions will increase with taxable income and decrease as the C/QPP contribution rate rises in the years ahead. It will not be universally advantageous to claim the spousal deduction and make the C/QPP contribution, and hence the C/QPP contributions on behalf of homemakers will not be made universally. As a result, the only proposals that offer any scope for redesigning the C/QPP benefits are those that would make C/QPP contributions on behalf of homemakers mandatory.

When the voluntary contributions approach is advocated, it is normally thought of in the following light. The contributions would be treated as employer and employee contributions on behalf of the homemaker. The homemakers would have their earnings record credited with the level of earnings on which the voluntary contribution would have been made at the going contribution rate. Thus, with the combined employer and employee contribution rate being 3.6 per cent as it is now, a voluntary contribution of $360 would give rise to a credit in a homemakers record of earnings of $10,000. Homemakers would accumulate an earnings record through successive voluntary contributions and be paid a C/QPP benefit at age 65 based on their earnings record in the same way that paid workers do.

Over and above the general problems raised above, this particular approach to including homemakers in the C/QPP has one enormous pitfall. If we assume - as seems reasonable - that the households that will make voluntary C/QPP contributions are those with savings, then it is fair to assume that voluntary contributions will be made most frequently by high income households. What makes this feature of the voluntary contributions approach especially perverse is that the recipients of C/QPP retirement benefits for the next several decades will be the net recipients of a substantial transfer of wealth from the succeeding generation of active workers. In other words, the homemakers from high income households would be given the opportunity to take advantage of a massive transfer of wealth under voluntary contributions as they are normally conceived of.

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If voluntary contributions were made on a money purchase basis, the transfer of wealth just referred to could be avoided. In this case the voluntary contributions would not be treated as contributions on a specific level of earnings and no earnings record would result for the homemaker. Instead the contributions would be recorded and they would earn the rate of return on the C/QPP investment funds. The voluntary contributions and the earnings they give rise to would accumulate in an account designated to the homemaker on whose behalf the contributions were made. At age 65 the accumulated contributions and interest would be withdrawn from the account and an annuity (i.e., monthly benefit payment) would be purchased on behalf of the homemaker.

The money purchase approach to voluntary contributions has the advantage that it would eliminate the transfer of wealth to high income contributors, and if it is symbolically important to permit direct contributions on behalf of homemakers, this may be the safest way to accommodate them. However, because of the way that the finances of the C/QPP are arranged, it is likely that most contributors would be better off if their voluntary contributions were made to an RRSP rather than a money purchase arrangement under the C/QPP. Indeed the CPP investment policy is so tightly restricted by law, that it may not be ethically acceptable to allow people to make voluntary contributions on a money purchase basis to the CPP when we know with a high degree of certainty that they could do better elsewhere.

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The alternative to a system of voluntary contributions would be an arrangement whereby earnings were imputed or attributed to homemakers and their spouses were forced to make contributions on their behalf. With regard to this approach it is worth recalling, first of all, that we have raised a number of general problems with homemakers' inclusion in the C/QPP above, and that a number of problems have also been raised about the relationship between the contributions on behalf of homemakers and other features of the C/QPP such as credit splitting, drop-out provisions and survivor benefits.

One of the questions to which an imputed earnings approach gives rise is the question of the level of earnings that should be attributed to homemakers. One approach to this question is to attribute the same level of earnings to all homemakers and require the same level of contributions of all spouses. For example, it could be determined that all homemakers will be dealt with as if they earned one half of the average industrial wage and their spouses would be required to make the employer and employee contributions that would be appropriate to that level of earnings. This approach sets a uniform value on the housework of all homemakers and declares, in effect, that each homemaker has earned at this level.

An alternative approach to putting a value on the housework of homemakers would be to attribute earnings to the homemaker that would vary with the earnings level of the spouse. For example: it could be established that homemakers will have a level of earnings equal to some

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per cent of their spouse's earnings attributed to them, and their spouse will be required to contribute the appropriate level of employer and employee contributions on their behalf. This approach suggests that the value of homemakers' housework depends on the earnings of their husband which hardly seems fair. On the other hand, it could be argued that this approach makes more sense in terms of maintaining a pre-retirement living standard that was tied to the husband's earnings, and that it would also reduce the burden of C/QPP contributions for low-income earners prior to retirement. In addition, if direct contributions on behalf of homemakers were treated as a substitute for survivor benefits, then an approach that tied the level of homemaker's benefits to the husband's earnings would parallel more closely what happens under survivor benefits.

One of the most important questions that has to be raised with either approach, however, is whether it makes economic sense to the household either before or after retirement to impose a regime of mandatory contributions on behalf of homemakers. In order to come to grips with this question, it would be important to know how the proposal would relate to credit splitting, drop-out rules and survivor benefits. Without knowing how all proposals would deal with these relationships, the very least that can be said is that it would not make economic sense to most households to force them into a system of contributions on behalf of homemakers if the C/QPP basic retirement benefit was raised to 50 per cent and the remaining provisions of the plans were left as they are. In saying this, we are acutely conscious of two things: first, the employer and employee contributions rate

to the C/QPP may rise to the neighbourhood of 15 per cent during the next century if the replacement rate is raised to 50 per cent; and second, the entire burden of employee and employer contributions is borne entirely by the workers. The reason why workers bear the burden of the employers' contributions is because the employers will adjust to higher C/QPP contributions by reducing their money wage offers to workers.

Bearing this point in mind we can look at the effect on a one-earner household of requiring mandatory contributions on behalf of homemakers as if homemakers earned one-half of the average industrial wage. To simplify matters we will assume that the couple we are concerned with never had any children. (Actual proposals of this sort have special rules for dealing with a situation where the couple has children under seven.) Further, we will look at situations where the income earner had earnings at one-half of the AIW and at the AIW. The retirement benefits these couples could expect are depicted assuming that the OAS represents 14 per cent of the AIW and that the C/QPP replacement rate is 50 per cent. Benefit figures are percentages of pre-retirement earnings replaced.

	Couple with earnings at ½ AIW			Couple with earnings at AIW		
	Husband's Benefit	Homemaker's Benefit	Total	Husband's Benefit	Homemaker's Benefit	Total
OAS	28%	28%	56%	14%	14%	28%
C/QPP	50%	50%	100%	50%	25%	75%
Total	78%	78%	156%	64%	39%	103%

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What is striking about these figures, first of all, is the very high replacement rates that would result from the mandatory contributions. In itself, this would not be a bad state of affairs, although it bears noting that a single woman earning at one-half the AIW would only be replacing 78 per cent of her pre-retirement earnings through OAS and CPP and if she earned at the AIW she would only replace 64 per cent of her pre-retirement earnings. (The difference between the replacement rates at one-half the AIW and the AIW stems from the fact that OAS is much larger in relation to the earnings of the former group.) However, the acceptability of the very high replacement rates diminishes substantially if one looks at their impact on pre-retirement contributions. If we assume that the C/QPP contribution rate will rise to 15 per cent, workers at one-half the AIW will be giving up 15 per cent of their earnings in support of their own C/QPP benefit and another 15 per cent on behalf of a homemaker. A worker at the AIW would be giving up 15 per cent on their own behalf and 7½ per cent on behalf of a homemaker spouse. Even at a 10 per cent contribution rate, the gross contributions would only drop to from 30 and 22½ per cent to 20 and 15 per cent. In short, pre-retirement earnings would be reduced by these amounts in order to provide more than 100 per cent of pre-retirement earnings in retirement.

The question that inevitably arises is whether the income of the household should be depressed to such a degree by C/QPP contributions before retirement, in order to support the very high level of benefits after retirement. From the point of view of the homemaker the reduction in pre-retirement earnings only makes sense if she derives no benefit from the larger pre-retirement income of the household that would result if no C/QPP contributions were made on her behalf.

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It should be clear from the foregoing that we have substantial reservations about including direct contributions on behalf of homemakers in the C/QPP. Some of these reservations stem from very general concerns about who should be protected and whose housework should have a value put on it. Further concerns stem from the difficulty in reconciling homemaker contributions with other existing or possible features of the C/QPP. Finally, we are concerned about the economic rationality of forcing people to contribute to significant increases in their standard of living as they move from work to retirement. From our point of view the most sensible approach to dealing with homemakers is to substantially increase the basic replacement rate to insure that every retired household has an adequate replacement income, and to insure that it is fairly divided through credit splitting. However, of the various proposals to include homemakers contributions, the only one that we are adamantly opposed to is the system of voluntary contributions that would give rise to a record of earnings on the homemakers behalf.

(4) Women and Private Pension Plans

Private pension plans will continue to operate whether or not the Congress' proposals with regard to the C/QPP are adopted. As a result, it is still important to amend the regulations governing private pension plans so as to remedy some of their provisions that are most inimical to women. The whole question of the regulation of private pension plans is discussed more fully below in Section VIII. Nonetheless, it is

still worth spending some time at this juncture to review some of the main proposals that we are making to amend the regulations governing private pension plans with a view to improving their fairness to women.

Earlier on in discussing the limitations of private pension plans, it was noted that they pose particular problems for women workers. They frequently exclude part-time workers from eligibility to participate; they have long vesting periods and limited portability which make it difficult for women to maintain pension coverage through time; and, they provide little protection against inflation which means that the purchasing power of their vested benefits and benefits in pay are constantly being undermined. These problems are so fundamental that they are in obvious need of redress. Therefore, we have proposed the following: that private pension plans not be allowed to exclude part-time workers from participation; that the maximum allowable vesting period be reduced to two years of service; and that deferred vested pensions and pensions in pay must be increased according to a formula that is discussed on p. 145 below. For current purposes it will be sufficient to note that although the formula we are proposing does not provide equivalent protection to full CPI indexing, it does eliminate the phenomenom of deferred vested workers and retirees subsidizing the plan as a whole.

Even if the maximum vesting period is dramatically shortened, women who belong to contributory pension plans will encounter two types of problems if no other changes are made to private pension regulations. First,

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if they terminate employment before becoming vested, they will have their contributions refunded to them but the interest attributed to their contributions is normally very low and does not reflect fully the interest that the pension fund has actually earned by investing their contributions. Second, even if a women has a vested benefit on termination of employment, when she is under age 40-45 it is likely that her own contributions plus the earnings they have given rise to for the pension fund will have paid for all or a substantial portion of her vested benefit. In response to these problems we are proposing that when workers have their contributions refunded to them, they must be paid interest on the contributions refunded to them that is equal to the rate of return on the pension fund. We are also proposing that when a worker terminates with a vested benefit, his or her own contributions plus interest must not amount to more than half of the value of the vested benefit. Actual contributions plus interest that exceed 50 per cent of the value of the vested benefit must be able to be refunded to the terminating employee, transferred to an RRSP, or left in the pension fund as a voluntary contribution.

It was noted above that one of the factors that has contributed to the low incomes of widows is the fact that many private pension plans make no provision for survivor benefits. This state of affairs was obviously a greater source of difficulty in an era when a large percentage of households arranged their affairs so that only one spouse had earnings from employment and it will remain a problem for households that continue to arrange their affairs this way. As a result, it is still worth insisting that private pension plans make provision for a survivors benefit that

amounts to at least 50 per cent of the basic retirement benefit offered by a plan. But, in view of the increasing participation of women in the labour force and the increasing likelihood that women will be earning private pension benefits in their own right, it should also be permissible for two spouses to agree to waive survivor benefits in favour of a higher benefit paid only to the plan member for her or his lifetime. Also, common-law relationships should be recognized as establishing spousal rights under private pension plans.

Two other matters should be mentioned here even though they may not be capable of being redressed through pension benefits legislation. One is that family law should recognize private pension plans as family assets and divide private pension entitlements equally on divorce. The other is that money purchase pension plans should give rise to annuities calculated on the basis of average mortality rates for men and women, and therefore provide both men and women with the same level of benefits if the same amount of money is used to purchase their annuities. The current situation in which a man would get a larger benefit than a woman with the same level of contributions based on his shorter life expectancy is unacceptable to us. We believe that equal contributions should give rise to equal benefits although we also recognize that this change may have to be brought about through the legislation governing the insurance industry.

Section IV: Immigrants and Canadian Public Pensions

There is much to be said for the way in which Canadian public pensions treat adult immigrants to Canada. The right to OAS benefits is tied solely to age and residence requirements and anyone with 20 years of residence in Canada between ages 18 and 65 can receive their OAS benefit anywhere in the world. The GIS is based on eligibility for OAS, income and residence in Canada at the time the GIS is received. C/QPP benefits are paid anywhere in the world to anyone who has made a valid contribution to these plans. The Canadian public pensions are notably free of any citizenship requirements as a condition of receiving benefits.

Despite these positive features of the Canadian public pension programs, changes to the OAS residence requirements in 1977 have drawn attention to a number of problems that adult immigrants may face under Canada's public pension programs. Prior to 1977, ten years of residence in Canada between ages 18 and 65 entitled a person to full OAS benefit and 20 years of residence allowed the recipient to have their benefit paid anywhere in the world. In cases where an adult immigrant came from a country that paid its public pension benefits to former residents now living in Canada, the short OAS residence requirement gave rise to the somehwat anomalous situation that an adult immigrant could be receiving a full OAS benefit and virtually a full public benefit from their homeland. Rightly or wrongly, some native born Canadians who were struggling to get along on inadequate public pensions found this situation unacceptable. In view of its adoption of a policy of expenditure restraint, the Government of Canada was well

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disposed to eliminate the duplication of benefits that arose under the OAS and it revised the residence requirements in 1977.

The new residence requirements that would apply to immigrants arriving after July, 1977 would still require 10 years of residence in Canada between ages 18 and 65 before any OAS payment would be made. But now 10 years of residence would entitle a person to only 10/40ths or 1/4 of a full benefit, and each additional year of residence would entitle a person to an additional 1/40th of a full benefit. In short, it would now take 40 years of residence in Canada between ages 18 and 65 in order to qualify for a full OAS benefit. At the same time the Government of Canada provided itself with the authority to enter into social security agreements with other countries that would cover OAS. (It already had this authority with regard to the CPP.) The idea behind the social security agreements was that Canada would enter agreements with foreign countries under which the cost of providing retirement benefits to immigrants to Canada (and emigrants from Canada) would be split between Canada and the other country. For the immigrants (or emigrants) this meant that they would be receiving partial benefits from Canada and partial benefits from their homeland. For the Government of Canada, the duplication of public pension benefits would end and, alas, money would likely be saved.

The change in OAS residence requirements raises some important issues. First, a large number of immigrants have come to Canada from countries with which no social security agreement has been negotiated (only

six agreements have been reached) and which do not pay benefits abroad. In fact, we have large numbers of immigrants from countries with which no agreement is likely to be reached in the foreseeable future (e.g., Vietnam). Second, even if social security agreements had been reached with every country in the world and partial benefits were payable to them from Canada and a foreign country, the partial benefit from poor countries is likely to be inadequate by Canadian standards. In short, the question arises whether adult immigrants to Canada should not be entitled to benefits that are adequate by Canadian standards.

Before commenting on how the issues just raised should be resolved, two other features of Canadian public pensions that affect immigrants should be noted. One is that under the GIS program, the maximum GIS benefit is reduced by $1.00 for every $2.00 of income from sources other than the OAS. For native born Canadians this means that the full value of an OAS pension is exempt from the income against which GIS benefits are reduced. However, for an immigrant receiving a full or partial pension from their homeland, the entirety of the foreign public pension is non-OAS income and therefore the maximum GIS benefit is reduced against the full amount of the foreign pension. In this respect, the foreign public pensions have not been fully integrated with the Canadian public pension system even where social security agreements exist.

The final point to note about Canadian public pensions that affects immigrants concerns the C/QPP. Retirement benefits under the C/QPP

are based on the earnings on which contributions are made - adjusted to reflect the growth of the YMPE - over the entirety of a person's contributory period. Whether they know it or not, every person in the world has a C/QPP contributory period that begins at age 18 or 1966, whichever came later, and runs until age 65. Thus, for people who immigrate to Canada after age 18, their record of earnings will show zero earnings from age 18 until they begin to make C/QPP contributions and their C/QPP benefit will be reduced unless the drop-out rules eliminate these years of zero contributions from the earnings on which their benefit is calculated. In cases where an immigrant is going to receive an earnings related benefit from their homeland based on years of work prior to coming to Canada, dating the C/QPP contributory period from age 18 or 1966 is probably justifiable on the grounds that it avoids a duplication of benefits. But two important questions are still left to be resolved: what should be done about people from countries who do not pay benefits abroad; and what if the partial benefits from abroad are inadequate by Canadian standards?

In formulating proposals that would deal with the problems that immigrants face under Canadian public pension plans, we have been guided by three philosophical and one technical consideration. The philosophical considerations are:

1) adult immigrants to Canada should be entitled to public pension benefits that are adequate by Canadian standards;

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2) a duplication of Canadian and foreign benefits should be avoided; and

3) in redressing the problems of adult immigrants they should not end up in a privileged position vis-a-vis native born Canadians.

The technical consideration is that most foreign countries do not operate flat benefit plans like OAS, but rely exclusively on earnings related programs which may or may not include a minimum benefit provision. Thus, any attempt to integrate foreign public pension benefits into the Canadian system in a way that guarantees an adequate Canadian pension will have to deal with OAS and the C/QPP as a single entity.

In view of the foregoing considerations, we would recommend that the current rules for determining public pension benefits be supplemented by the following rules that would apply to immigrants who are resident in Canada at age 65 and have been resident in Canada for 10 continuous years immediately prior to reaching age 65.

1) in determining GIS benefits, any benefits from the OAS as determined by the current rules plus foreign public pension benefits up to the level of a full OAS benefit, would be excluded from the income against which maximum GIS benefits are reduced;

2) a supplemental public pension benefit would be calculated on the following basis: the supplemental benefit would amount to the difference between:

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a) a full OAS and a C/QPP benefit calculated as if an immigrant's contributory period had begun when they first became eligible to work in Canada; and

b) OAS and C/QPP benefits available from Canada under existing rules plus public pension benefits payable from abroad.

The change in the GIS rules would put adult immigrants on the same footing as native born Canadians in terms of their right to exempt public pension benefits in the calculation of GIS benefits. The OAS and C/QPP supplement would avoid the duplication of benefits that was a problem in the past. Indeed, if the public benefits available from both OAS and C/QPP, and foreign sources equalled the full OAS and hypothetical C/QPP benefit, then no supplement would be paid. On the other hand, immigrants who find themselves in a situation in which their homeland will only pay benefits that are inadequate by Canadian standards or will pay no benefit at all, will be able to earn OAS and C/QPP benefits that will provide adequate retirement incomes by Canadian standards.

Section V: Financing the Canada and Quebec Pension Plans

(1) Introduction

This is such a broad and complex topic that in this paper we are forced to confine ourselves to identifying some of the key issues involved in financing the C/QPP that have arisen over the past few years and to state the CLC's position on them. However, we wish to draw the readers' attention to the fact that two of our background papers deal specifically with this issue (Funding Alternatives for the Canada Pension Plan and The Economic Effects of CPP Financing). We would also draw the readers' attention to the following paper that deals with the issues raised in relation to what we have called the tax base of the C/QPP: Richard A. Musgrave, "Financing Social Security: A Reappraisal" (Harvard Institute of Economic Research: Discussion Paper No. 753).

The general question as to the proper method of financing the C/QPP involves three distinct subquestions:

1) what rules should be followed in determining the amount of revenue that the C/QPP should raise each year; we will refer to this as the funding issue;

2) if C/QPP revenues exceed the cost of benefits and administration so that the plans generate savings, what rules should be used to determine to whom and under what conditions these savings are lent; we will refer to this as the allocation of savings issue; and,

3) who should be taxed in order to pay for the C/QPP; we will refer to this as the tax base issue.

Each of these issue areas will be discussed in turn.

(2) The Funding Issue

The current method of funding the C/QPP is a hybrid of two pure types of pension plan funding: pay-as-you-go (or pay-go) and full advance funding.

Under a pay-go funding method a pension plan's contribution rate is set at a level so that annual revenues will just be sufficient to cover the annual benefit payments and administrative expenses under the plan that year. A small reserve may exist under a pay-go plan to cushion the effects of an unexpected revenue decrease or cost increase, but generally speaking it is fair to say that no savings accumulate under a pay-go plan. The OAS, GIS and most public pension plans around the world are funded this way.

Under a full advance funding method, the contribution rate is designed to produce revenues equal to the value of the benefit promises earned by the members of the plan each year. In this case the revenues are not related to this year's pay-out of benefits, but to the value of benefits that will have to be paid in the future based on this year's participation in the plan. The level of contributions is set so that if the contributions are

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invested at an assumed rate of compound interest, they will have a value at retirement date that is sufficient to pay the benefit promises that have been earned this year. This approach to funding generates substantial amounts of savings and is used in private pension plans. The accumulation of substantial savings under private pension plans is designed to provide security to the pensions promised under these plans in the event that an employer who is sponsoring a plan goes bankrupt. The security of benefits under public pension plans rests on the continuing willingness and ability of governments to raise tax revenues to meet their financial obligations. If these conditions are not met, no financing system will protect public pension benefits.

The method that has been used to finance the C/QPP thus far has involved a mixture of pay-go and full funding approaches. The contribution rate was set at a level in 1966 which was greater than the pure pay-go rate. Contributions exceeded benefits and a fund of approximately $19 billion has accumulated under the CPP and $8 billion under the QPP. However, the 3.6 per cent contribution rate (1.8 per cent by each of employees and employers) was not designed to cover the value of all new benefit promises that would be arising under the plan. Had the contribution rate been set in this way, the contribution rate would have been set between seven and eight per cent and the accumulated fund under the CPP alone would have amounted to approximately $200 billion. Clearly the funding method used by the C/QPP involves elements of each of the two pure types and is sometimes described as employing a partial funding method. But, given the small portion of the total liabilities under the plan (the value of the accumulated benefit promises) that are represented by the assets of the CPP Investment Fund, it is probably best to refer to it as being funded on a modified pay-as-you-go basis.

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During the course of the great pension debate, the question has inevitably arisen whether the current funding method should be abandoned in favour of another. Several specific issues have arisen in relation to the current funding system and these will be dealt with below. However, at the outset it is worth raising the question as to which funding method is likely to give rise to the higher contribution rate. It seems to us that this question is going to be uppermost in the minds of most Canadians and well it should be. The public pension system should be designed to minimize the burdens imposed on the contributing population while still guaranteeing adequate benefits to the retirees.

During the first several decades after a public pension plan is introduced or new benefits are added to an established plan, a pay-go funding system will invariably give rise to a lower contribution rate. This is especially true if all of the current elderly do not become eligible for the new benefits immediately on the introduction of the new pension benefits. (C/QPP benefits were only made available to people who retired after 1967 and full benefits were only paid in 1976.) The actual amount of the new benefits being paid, to which contributions will be linked under a pay-go plan, will be very small in relation to the value of the future benefits being earned under the plan each year to which the contributions will be linked under a fully funded plan. Indeed, a strict system of full funding poses special problems in phasing-in new benefits. Unless the new benefits are being phased-in over the long period of time that is equal to the period over which contributions are normally expected, then special contributions will be required over and above those that would be deemed appropriate

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to support the benefits earned each year under the plan. In the case of the C/QPP this would mean phasing-in benefits over a period of 47 years if special contributions are to be avoided.

It can be, and has been, argued that the ease with which a pay-go system can handle the phasing-in of new benefits is one of the weaknesses of the system. It creates the illusion that certain levels of benefits only require a low contribution rate whereas the contribution rate will have to increase as more and more of the elderly become eligible for the full benefits promised by the plan. At the very least, this line of argument should make us sensitive to the long-run contribution rate required under the two funding methods. Unfortunately, an attempt to determine the contribution required under the two funding methods over the long term does not give a conclusive answer as to which funding method will produce the lowest long-run contribution rate.

Any attempt to assess the required contribution rates over long periods of time will require the analyst who is projecting the contribution rates to make assumptions about the future. Inevitably there is a great deal of uncertainty surrounding these assumptions. Pay-go contribution rates projected into the future will be very sensitive to the number of contributors who will be making contributions compared to the number of people who will be receiving benefits. We are satisfied that this ratio of beneficiaries to contributors can be estimated with a reasonable degree of accuracy into the first decade of the next century by which time the current benefits will be phased-in. Beyond that point the estimates become increasingly unreliable as the factors that will

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influence the required contribution rate become harder to predict with a reasonable degree of accuracy. Moreover most of the available estimates appear to us to be unduly pessimistic as they assume an excessive rate of growth in the ratio of beneficiaries to contributors. (This matter is discussed further in the next section of this paper.)

Bearing in mind the concern raised in the preceding paragraph, Tables 3 and 4 present projections of the required level of C/QPP contributions for the existing level of benefits. The typical point of comparison offered by these figures is between a pay-go rate and a full cost rate. The full cost rate is similar to the full funding rate except that no allowance is made for financing benefits that have been phased-in over a shorter period than the period for which contributions will normally be made. The estimates prepared by the Ontario Royal Commission are an exception to this rule which is why its full funding rate drops from 12.53 to 9.66 per cent.

Tables 3 and 4 reveal that through to the year 2010, by which time the existing plan will be almost fully phased-in, the pay-go rate will likely be lower than the full cost rate. Beyond that point, the projections of the pay-go contribution rate become less reliable and the evidence as to which funding method would give rise to the lower contribution rate becomes less decisive. Another point that should not pass without comment is that Tables 3 and 4 demonstrate the remarkable sensitivity of future contribution rates to the assumptions on which the projections are based.

If the choice of funding methods rests solely on the question of the funding method that would give rise to the lowest contribution rate,

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TABLE 3

Projections of the Required Pay-As-You-Go Contribution Rate to the Existing CPP

Year	Samuel A. Rae A	Samuel A. Rae B	Samuel A. Rae C	Samuel A. Rae D	Department of Insurance 1973 Fund B	Department of Insurance 1973 Fund C	Department of Insurance 1977 Fund B	Department of Insurance 1977 Fund C	Ontario Royal Commission
1980	-	-	-	-	3.6	3.6	3.6	3.6	2.9
1990	4.3	4.2	4.0	4.3	4.3	3.6	4.6	3.6	4.6
2000	5.3	4.7	4.8	4.7	5.1	4.1	5.6	4.8	5.8
2010	6.0	5.6	5.4	4.8	5.3	4.8	6.2	5.9	6.3
2020	7.2	6.4	6.2	5.0	6.3	6.0	-	-	8.1
2030	10.0	8.6	7.3	5.3			9.1	9.0	9.3
2040			7.2				-	-	8.9
2050			7.2				9.0	9.0	9.5
Key Assumptions									
Fertility Rate	1.5T	1.5T	2.1T	3.0T	1.05F	1.05F	1.00F	1.00F	1.00F*
Immigration Rate	60,000	120,000	120,000	180,000	.5%*	.5%*	.465%*	.465%*	100,000*
Growth in average earnings	8.5%	8.5%	8.5%	8.5%	5.5%	5.5%	5.5%	5.5%	6.1%*
Inflation Rate	6.0%	6.0%	6.0%	6.0%	3.0%	3.0%	3.5%	3.5%	4.0%*
Interest Rate	8.5%	8.5%	8.5%	8.5%	6.5%	6.5%	6.5%	6.5%	6.4%*

Notes: Assumptions marked with an asterick indicate that one assumption was used for a limited number of years into the future and an ultimate assumption was used for all years thereafter. In all cases the ultimate assumption is the one noted above.

The postscripts T and F after the fertility assumptions respectively indicate: (T) total number of children per adult female; and (F) female children per adult female. 2.112(T) is approximately equal to 1.00F.

The Department of Insurance states its immigration assumption as a per cent of the entire population. An assumption of .500% would be approximately 115,000 today.

All projections provide for some increase in life expectancy.

Sources: Samuel A. Rae, Redistributive Effects of Canada's Public Pension Programs (Economic Council of Canada: 1981)

Department of Insurance, Canada Pension Plan Statutory Actuarial Reports, Nos. 3 and 6

Report of the Royal Commission on the Status of Pensions in Ontario (1981) Vol. V, p. 76.

TABLE 4

Required Entry Age Normal (Full Cost) Contribution Rates for the Existing CPP and Selected Pay-Go Rates in 2030

	Samuel A. Rae			Dept. of Insurance 1977			Ontario Royal Commission
	A	B	C	A	B	C	
Entry age normal (Full cost) rate	9.1	5.7	7.5	8.0	8.5	9.4	12.53/9.66
Pay-go rate 2030	8.6	8.6	9.6	9.1/9.0	9.1/9.0	9.1/9.0	9.3
Key Assumptions							
Fertility rate	1.5T	1.5T	1.5T	1.0F	1.0F	1.0F	1.0F*
Immigration rate	120,000	120,000	120,000	.465%	.465%	.465%	100,000
Growth in average earnings	2.5%	2.5%	1.5%	5.5%	5.5%	5.5%	6.1%*
Inflation rate	0.0	0.0	0.0	3.5%	4.0%	3.5%	4.0%*
Interest rate	2.5%	4.0%	2.5%	6.5%	6.5%	6.0%	6.4%*

Notes: See notes to Table 3.

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we would favour a pay-go approach. It has the advantage of being certain to give rise to a lower contribution rate in the short run, the high probability of a lower contribution rate for the foreseeable future (i.e., to 2010), and is likely to give rise to a lower contribution rate over an indefinite period of time.

The lower rate of contributions that might emerge under a pay-go plan notwithstanding, some people have argued against pay-go public pension plans on the grounds that they reduce private savings for retirement. This point is further elaborated to argue that they will therefore reduce the total of society's savings which will reduce levels of new capital investment, the total capital stock in society and hence the societal wealth out of which pension benefits can be paid. This argument has been the subject of a good deal of theoretical debate and empirical investigation in Canada and the United States in recent years which is discussed more fully in our background papers. For the current purposes it will be sufficient to note:

1) that the process of economic growth cannot be shown to be led by savings;

2) that historically, variations in personal savings have been offset by compensating variations in business and government savings; and,

3) pay-go public pension plans cannot be shown to reduce personal savings because they are not perfect substitutes for private retirement savings and retirement is not the sole purpose of private saving.

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In short we are not persuaded by the argument that public pay-go pension plans can be associated with a decline in savings, investment and economic growth.

To put a somewhat finer point on this argument, three things might be noted:

1) since the mid-1970's Canada has experienced record high levels of personal savings and has one of the highest personal savings rates in the world;

2) in recent years, an excess of savings and not a shortfall has been a more serious problem for the Canadian economy; this point was acknowledged by the Government of Canada in 1978 in a document titled Canada's Economy - Medium Term Projections and Targets;

3) over the longer term the Economic Council of Canada has expressed the concern that restrictions on the right of private pension plans to invest in foreign securities may become an increasing problem in the future as the size of these funds grows in relation to available Canadian securities; put more boldly, they are concerned about the ability of the Canadian economy to absorb private pension savings; (See: Economic Council of Canada, One in Three, pp. 53-64, 88-89)

More fundamentally, a serious question must be raised about the relevance of the entire argument concerning the impact of pay-go pension plans on savings.

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When the concern is raised that pay-go pension plans might reduce savings, the presumption is often made that therefore they should be limited in their scope of operation, eliminated, or replaced by plans that operate on an alternative funding basis. However, none of these conclusions follow automatically. The impact of a pay-go pension plan on savings is only one of a number of considerations that must be taken into account in making the funding decision. The presumption that a pension plan can be judged by its impact on savings confuses two quite separate issues - pension policy and savings policy - and treats them as if they were one. The purpose of a government savings policy is to determine the level of savings required by the economy and the preferred methods of generating savings. To the degree that public and private pension plans can be shown to influence savings, pensions will be an element in savings policy. But, pensions will never be the overriding method of implementing a savings policy because they are only one of a vast array of methods of saving under potential government influence and control. On the other hand, the purpose of pensions is to provide retirement income and the purpose of pension policy is to determine how retirement incomes should be provided. This is a completely distinct issue from savings policy and neither pensions nor pension policy should have their purpose subverted by being subordinated to savings policy. Thus, even if it could be shown that a pay-go public pension plan that was meeting the objectives of pension policy was reducing savings to undesirable levels, the appropriate response would not be to change the pension plan or its funding method; the appropriate response would be to use the other methods available to increase savings.

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Another line of criticism of pay-go financing is that it generates greater benefits for contributors with high earnings than it does for contributors with low earnings. Under a pay-go plan if full benefits are paid to people who did not contribute for the full period over which contributions are normally made, then the initial beneficiaries of the plan will be the recipients of a transfer of wealth from the succeeding generation. Once the initial generation of the youngest contributors has reached retirement age, the process of one generation supporting another will carry on but each generation will have contributed fully and benefitted fully. There will be no net transfers of wealth from one generation to another except insofar as these arise from changes in the age structure of the population or changes in the rate of economic growth (eg., a person who received their benefits during a period of slow growth but contributed during a period of rapid growth would be a net beneficiary and vice versa). One could also imagine a doomsday generation that was a net contributor because it contributed fully but did not receive full benefits.

Under a plan like the C/QPP that relates benefits positively to income up to the yearly maximum pensionable earning (YMPE), but taxes contributors almost in proportion to their earnings, the net benefits of intergenerational transfers will increase with people's earnings. By way of contrast, it is sometimes argued, a full cost or full funding approach avoids this problem because each generation pays its own way.

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The first thing that should be noted about this critique of the pay-go funding method is that it is largely a transitional problem that stems from the phasing-in of new benefits over a period of time that is shorter than the normal contributory period. In other words, as a pay-go plan matures, the net transfer of wealth from one generation to another tends to disappear as does the transfer of larger net benefits to higher income earners. It should also be noted that unless the net transfers of wealth are related to levels of lifetime earnings, they do not constitute a reasonable measure of the impact of a pay-go pension plan on the distribution of lifetime earnings among different income groups within a specific age category. This issue is discussed below (pp. 95-96).

In comparing the impact of the two funding methods on the transfer of wealth to different income groups, one point bears special emphasis. It was noted that the pay-go funding method gives rise to a greater transfer of wealth to higher income groups during its phase-in period and the full cost method does not appear to give rise to this result. However, in the analyses of the full cost method, the problems associated with the rate at which new benefits are phased-in is simply ignored. In fact, if new benefits were phased-in at a rate that required special contributions, then intergenerational transfers would arise in the same way that they do under a pay-go plan with the same effects on the income groups that receive the largest net benefits. In other words, the apparent difference between the two funding methods in terms of their impact on the distribution of net benefits stems as much from the way in which analyses have been conducted, as it does from the actual difference in the funding methods themselves. Thus the choice of funding methods should not be significantly influenced by this consideration.

Another problem that has been raised with the pay-go funding method is that the aging of the Canadian population is going to give rise to the need to increase the C/QPP contribution rate in the next century regardless of the level of benefits that the plans provide. It bears special emphasis that these increases will be required with no increase in the level of benefits provided by the plans. It has been argued that the future increases in contributions with no increase in benefits will prove unacceptable to the future generations of contributors who will rebel against the contribution and benefit levels. In other words, there is concern that the pay-go funding system may jeopardize the existence of the benefits being promised under the plan. By way of contrast, it is suggested that the full cost funding method avoids this problem by establishing a contribution rate that should remain fixed through long periods of time. The figures in Tables 3 and 4 seem to confirm this contrast.

On closer inspection the contrast between the two funding methods is less clear cut than would appear to be the case at first sight. For one thing it has already been noted that the apparent stability of the full cost rate ignores the problem of phasing-in new benefits. It also ignores the fact that the stability of the full cost rate depends on whether the experience of the plan unfolds in the fashion predicted when the full cost rate is established. In the likely event that there are differences between actual and projected experience, then the plan may require special contributions on a temporary basis, or special reductions in contributions on a temporary basis. In our view, the need to make special contributions

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to make up for an unpredicted imbalance between the assets and liabilities of the plan will be no more palatable to the contributors than increasing pay-go contributions due to the aging of the population. Indeed they may be less palatable since they may involve sharper increases in contributions over short periods of time than would be likely to occur under a pay-go plan. The possible need for such contribution rate increases is the rock on which a full cost system is likely to founder.

Once again, however, the fact that full cost or fully funded systems are also vulnerable to variations in the contribution rate does not solve our problem except in the very limited sense that it does not direct us to choose one funding method over another. The fact remains that the pay-go contribution rate will have to increase with no increase in benefits. This will happen no matter what happens to the level of benefits because of changes in the age structure of the population that can be foreseen with a reasonable degree of certainty over the next 20 years and with a sharply declining degree of certainty thereafter. An increase in the level of benefits will also, quite naturally, cause the contribution rate to increase; and, the rate at which the new benefits are phased-in will determine the timing of required increases in the contribution rate that must be made in order to accommodate the higher level of benefits. If the new benefits are phased-in quickly, their impact on the pay-go contribution rate will be felt quickly and the need for a drawn out process of increasing the contribution rate to accommodate the new benefits will be minimized. If the benefits are phased-in slowly, the opposite effects will result.

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It should be clear from the foregoing that: 1) we view the pay-go funding system as the best way of minimizing the burden of C/QPP contributions on active workers; 2) the problems that have been associated with it do not lead to the conclusion that an alternative funding method would be superior; but that 3) the increasing contribution rate with no increase in benefits is a potential problem with this funding method. In the worst possible scenario, future generations of contributors might rebel against the higher rates of contributions and successfully demand a reduction in benefits. In our view this is most likely to happen if contributors are confronted with an abrupt and significant increase in contributions with no increase in benefits. We believe that several measures can be taken to limit this possibility.

In the first place it is very important that increased benefits be phased-in quickly. This would reduce the need to extend the process of making accommodating increases to the contribution rate over a long period of time. It would mean that the contributors could directly associate their increased contributions with new levels of benefits paid. More importantly, a rapid phase-in of new benefits means that the disparity in benefits available to different age groups is minimized. Thus we have suggested that the doubling of the C/QPP retirement benefit be phased-in as if the maximum benefit had continued to increase at 2½ per cent per year after 1976, as it did from 1967 to 1976. Not only would people reaching 65 after the introduction of the new benefit level be able to take advantage of it, but increases would also be made to the benefits based on reaching age 65 after 1976. The new benefits would begin to be paid in full in 1986. (While this discussion

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is focussed on the C/QPP, it is important to note that the current elderly will share immediately in the benefits arising from our proposed OAS and GIS increases. Moreover, we expect that future generations of the elderly will be drawing less heavily on the GIS as the increase in C/QPP benefits that we are proposing will raise the incomes of the future elderly to levels at which no GIS benefits will be payable.)

In order to avoid shocks to the contribution rate at least two other things need to be done. In the first place it is necessary that a reserve fund amounting to at least two years estimated C/QPP benefits and administrative expenses be maintained. More importantly it is necessary that a regular process be established for reviewing and adjusting the C/QPP contribution rate. When the contribution rate was established in 1966 and the 3.6 per cent contribution rate was established, no mechanism was established for reviewing or amending the rate except for the provision in the CPP Act that changes in the contribution rate would require the agreement of the federal government and 2/3 of the provinces with 2/3 of the population. The 3.6 per cent contribution rate could support the existing plan until just after the turn of the next century but the provinces would have to become net contributors to the plan by the middle of this decade and the existing reserve fund would be totally exhausted shortly after the year 2000. Most importantly, the contribution rate would then be subject to a more abrupt shock than would be the case if the contributions had begun to increase at an earlier date.

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In our view the C/QPP contribution rate should be subjected to a regular five year review. The review process should assess the required pay-go rate for the coming twenty years and recommend annual incremental adjustments to the C/QPP contribution rates so that they will match the rate targeted for 20 years hence. (The significance of the 20 year period is that the size of the labour force 20 years hence can be determined with a reasonable degree of accuracy since the potential new entrants to the labour force will already have been born.) We believe that this approach to implementing a pay-go funding system will minimize the likelihood of abrupt shocks to the contribution rate and potential contributor rebellions. One of its side effects would also be to have the C/QPP continue to generate a slowly growing fund over the next several decades as the anticipated need for increased pay-go contributions causes the actual level of contributions to be set slightly above those required by a strict pay-go plan. Indeed, the review process that we are proposing would also facilitate a shift away from a strict pay-go funding basis if that was deemed desirable because the pessimistic projections of future pay-go contribution rates were borne out by experience.

In discussing the funding issue thus far, we have focussed our attention on some of the major controversies that have arisen over the past few years concerning the pay-go funding system. In concluding this discussion there are at least three points that should be made. One is that despite the importance of the choice of funding methods to the issues raised above, the choice of funding methods does not affect the share of national income that is available to people over 65. Under the pay-go system, retirement incomes

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are provided through the direct transfer of income from active workers to retirees and under a fully funded system the incomes are provided by earnings on assets that are held in trust for the provision for retirement incomes. In either case the incomes of the retired population and the portion of national income that they represent will be determined by the formula according to which benefits are paid; all that changes is the mechanism through which the retirees claim their share of national income.

It should also be noted that while the contribution rate required under full cost or fully funded systems is not sensitive to the age structure of the population, the volume of assets that accumulates under this funding system is sensitive to the age structure of the population. Moreover, if the more pessimistic predictions concerning the aging of the population are borne out, the need to draw down pension assets in order to provide pension benefits would be one of the consequences. Thus the attractiveness that some people see in full funding as a way of generating savings, could produce the effect of generating substantial dissaving in the future and the savings policy of the Government of Canada would likely have to be adjusted to offset the dissaving associated with a fully funded plan. In short, if savings policy and pension policy are confused with each other, each has the potential to constrain the other. If the pay-go funding system has no other advantage, it has the advantage of being a discreet policy tool that can deal with the sole object of pension policy which is the distribution of income between the retired population and the working age population.

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Finally, we noted in our submission to the Royal Commission on the Status of Pensions in Ontario in 1978 that one of the problems posed by a full funding approach to the C/QPP is that the volume of savings they would generate could overwhelm Canadian capital markets. This concern was echoed in the Report of the Royal Commission itself and is certainly implied in the work of the Economic Council of Canada.

(3) The Allocation of Savings Issue

CPP revenues in excess of the money required to pay benefits and administrative expenses enter the CPP Investment Fund (CPPIF). Each of the nine provinces that participate in the CPP is free to borrow the money transferred to the CPPIF; each province can borrow a percentage of the new money in the CPPIF that represents the share of the total CPP contributions that comes from that province. The federal government can borrow the percentage of the new money in the CPPIF that is attributable to contributions made by residents of the Yukon and Northwest Territories. The federal government is also free to borrow any unused provincial allotment.

The provinces have borrowed from the CPPIF by issuing bonds of the province or bonds of subordinate agencies, such as hydro commissions, to the Fund. The bonds have all had terms of 20 years to maturity and the CPP Act specifies that they must bear the same rate of interest as the most recent issue of 20 year Government of Canada bonds. Loans based on bonds issued in the name of the province enter the general government revenues

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of the province and the money is spent on general government expenditures. Most provinces have borrowed in the fashion just described. However, the province of British Columbia has always borrowed in the name of subordinate agencies and recently Alberta and Ontario have begun to do likewise.

The situation in Quebec with the QPP is substantially different. The excess of revenues over expenses is directed into the Caisse de Dépôt et Placements which invests not only the funds generated by the QPP, but certain public employee pension funds as well. The key difference between the operations of the Caisse and what happens under the CPP is that while the majority of the Caisse's investments are in government bonds; it has also invested very heavily in common stocks. In fact, it is the largest single trader on Canadian stock markets and is a substantial shareholder in Domtar and Noranda.

The method of allocating savings under the CPP has been subjected to a good deal of criticism which typically revolves around the fact that the provinces can borrow from the CPPIF at lower rates of interest than they would pay if they were borrowing in the open market. They can borrow at lower rates because they generally have to offer higher rates of interest on their bonds than the Government of Canada does. The process of lending money to the provinces at lower than market rates of interest is frequently associated with the idea that the provinces are borrowing at "bargain-basement" rates. Up until the mid-1970's this claim might have had some validity to it because the federal government went for

a number of years without issuing 20 year bonds that would reflect rising interest rates. However, since the mid-1970's it has been issuing 20 year bonds on a more regular basis and its most recent issue bore a 16.04 per cent interest rate which is hardly a "bargain-basement" rate.

In some quarters, the fact that the provinces can borrow at less than market rates of interest is viewed as undermining the financial viability of the CPP and causing the contribution rate to be higher than it otherwise would be. If the CPP were operating on a fully funded basis, this view would have a great deal to recommend it since small variations in the rate of return can have a substantial impact on the required contributions under the plan. A difference of ½ per cent in the rate of return can change required contributions by 15 to 20 per cent. However, under a modified pay-go plan like the CPP, the return on money invested is only relevant to the contribution rate if a policy decision is made to use interest returns to pay benefits. The federal Department of Insurance uses a variety of methods of calculating required CPP contributions and one of them assumes that interest earnings are used to provide benefits. Using this particular method of calculating required CPP contributions, the Department has calculated that a ½ per cent difference in the return on the CPPIF would change the contribution rate by 1/100th of one per cent by the year 2050. In short the rate of return on the CPPIF is not a significant factor in determining the required contributions under a largely pay-go plan.

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The existing method of allocating CPP savings has also been criticized on the grounds that it induces the provinces to borrow and spend more than they otherwise would, and that the provinces are borrowing to finance current expenditures that should not be supported by borrowing. The former question has been subjected to empirical testing. The results of these tests suggest that the availability of CPPIF loans has not increased provincial borrowing and spending beyond levels they would have reached in any case - except possibly in the Atlantic Provinces where the evidence is mixed. The chief effect of the CPPIF loans appears to have been to lead the provinces to borrow from the CPPIF rather than private capital markets.

The criticism that general provincial expenditures should not be financed by borrowing stems from the more deep-rooted conviction that general provincial expenditures are, by definition, current rather than capital expenditures which should be financed by current tax revenues rather than borrowing. This strikes us as a wholly unreasonable position. Provincial governments do undertake substantial capital expenditures on items such as: hospitals, highways, schools, and urban transit systems. Moreover, many of their current expenditures such as education and health care expenditures have an important investment element to them when viewed from the standpoint of society as a whole.

A final concern that has been expressed regarding the current method of allocating CPP savings relates to the fear that the provinces will

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not repay their loans to the CPPIF. This fear has been fuelled by the Ontario Treasurer who has expressed the view that these loans ought not to have to be repaid. From our point of view there is no doubt about the fact that the provinces have the moral and legal obligation to repay these loans. Indeed we think the position of the Ontario Treasurer is best understood as political posturing. At the same time it is probably worth noting that there is no concrete evidence that would suggest that the provinces will renege on their debts to the CPPIF. The provinces have made all interest payments due on their CPP borrowings - which they have been able to reborrow since CPP revenues exceed expenditures - and the first repayments of capital are not due until 1985. For several years after 1985 the provinces will be able to reborrow their capital payments as CPP revenues will still exceed expenditures. Four provinces have established sinking funds to help repay CPP debt and, barring unforeseen developments, the rest will be borrowing in private capital markets to repay their debt. It is important to recognize that the provinces cannot renege on their CPP debt without facing the prospect of being severely penalized in capital markets in the sense that they will have to offer much higher rates of interest in order to raise money through bond issues. In short, their long-term self-interest lies in repaying the debt.

As long as the CPP continues to be financed on a largely pay-go basis as we have suggested, we see no reason to change the initial allocation of CPPIF money to provinces under the terms and conditions now embodied in the CPP Act. Historically the provinces had to make certain concessions in order to allow the CPP to exist and given that their right

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to borrow from the CPPIF is not having a significant impact on the required contribution rate under the plan, we are not convinced of the need or desirability of changing current arrangements for allocating savings that accrue under the CPP. However, we also believe that each of the provinces should be willing to account for the use of its CPP borrowings as a sign of good faith to contributors. This seems especially relevant now that a number of provinces are moving away from the pattern of borrowing solely in support of their general revenues and expenditures. This could best be done by channelling provincial borrowing through provincial development agencies that would be responsible for allocating borrowing within each province. Moreover, these agencies should be directed by Boards of Trustees, at least one-half of the members of which would be workers' representatives; wage and salary earners bear virtually the entire cost of the program since employer contributions are passed back to the workers in reduced wages and salaries.

If, however, a decision is made to break with the established pattern of modified pay-go funding, then the existing rules for allocating CPP savings would become increasingly unacceptable. The return on invested assets would then become a significant element in the determination of the contribution rate and an investment portfolio made up entirely of bonds bearing the rate of interest on 20 year Government of Canada bonds would be unacceptable. Ways of channelling CPP funds into investments with higher rates of return and the Boards of Trustees referred to in the previous paragraph would become imperative. This channelling could be done directly from the CPPIF although this would require an amendment to the CPP Act,

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or it could be done through the provinces. It goes without saying that if the channelling was done through the provinces, then the CPPIF would have to be able to share the benefits of the higher rates of return or there would be no effect on the CPP contribution rates. Thus the return from the provinces to the CPPIF would have to exceed the Government of Canada bond rates now prescribed by law.

It should also be apparent that if the CPPIF is going to earn a higher rate of return, it is going to have to be invested in part in the private sector. While we certainly do not share the ideological aversion to direct investment in the private sector that is sometimes expressed by private business interests, we do acknowledge that channelling money into the private sector could be done through financial intermediaries. The CPPIF or provincial development agencies could auction off blocks of money to the highest bidder who would then relend the money to ultimate borrowers in the private sector. We would prefer to see public pension funds invested in line with social and economic policy objectives. However, our point here is merely that the accumulation of substantial public pension funds does not lead automatically to substantial public investment in the private sector.

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(4) The Tax Base Issue

The question of the appropriate tax base for the C/QPP arises in the context of the broader question of the distributional impact of the C/QPP and the public pension system as a whole. Thus there are some broader issues that are worth commenting on before the tax base of the C/QPP itself is discussed.

The distributional impact of either the C/QPP or the public pension system as a whole can be analyzed on two distinct bases. First, one can look at how the tax burden required to support these programs is shared among different income groups in a particular year. For the C/QPP this means analyzing the burden of C/QPP contributions that is borne by different income groups each year: what portion of total income do members of different income groups pay in C/QPP contributions. The same sort of thing can be done with OAS and GIS. These programs are paid for out of general revenues of the federal government. Insofar as we can determine which income groups pay what percentage of their incomes in federal taxes of all sorts, then we can determine the distributional impact of OAS and GIS by attributing a percentage of all federal taxes paid to OAS and GIS. However, it should be acknowledged that there is a great deal of uncertainty surrounding this type of exercise since the distributional impact of some federal taxes - especially the corporate income tax - is not known with certainty.

The other approach that can be taken to analyzing the distributional effects of public pensions is one that tries to link the benefits that will be received from public pensions to the taxes and/or contributions that will be paid to support them. This type of approach

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tries to compare the lifetime benefits that will be received from public pension programs with the lifetime taxes or contributions that will be paid to support the programs. If the lifetime benefits exceed the contributions or taxes, then a person is a net beneficiary of the program; and conversely, if contributions or taxes exceed benefits, then a person is a net contributor to the program. Insofar as we can determine the net contributor or beneficiary status of the members of different income groups, then we can assess the lifetime distributional effects of different programs.

In some ways the lifetime approach makes far more sense than the annual approach. We know, for example, that the maximum employee contribution this year will be $268.20. This represents a much smaller proportion of a $33,000 income than it does of an income of $16,500 which is the maximum pensionable earning under the C/QPP this year. Yet the possibly objectionable nature of this state of affairs diminishes markedly when we remember that the potential benefit to be earned under the C/QPP is $307.65 which is much smaller in relation to total income for someone earning $33,000 than it is for someone earning $16,500. In other words, if we want to assess the fairness of a particular distribution of tax burdens among income groups, it would seem appropriate to link the tax burden to the benefits to be received.

There are, however, two qualifications that need to be made to any generalization regarding the superiority of the lifetime approach. In the first place, it could be decided that the burden of certain taxes

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on low income earners is too great no matter what the ultimate benefit is that they will receive. In the second place there is a very serious technical problem in the lifetime approach. The results of any such analysis assume that the elements included in the analysis will remain constant throughout a person's lifetime. This seems particularly inappropriate as it relates to the tax system which is subject to constant change. Moreover, our perception of the distributional impact of different programs can be very heavily influenced by this technical problem. If for example, we were comparing the distributional effect of the OAS with the C/QPP and there was a shift toward a more regressive general revenue system for the Government of Canada, the relative attractiveness of the OAS is lifetime distributional terms would decline accordingly. This is by no means a purely theoretical issue. Among the best known analyses of the lifetime distributional effects of Canada's public pension programs are some which treat the OAS and GIS as if they were paid for entirely by revenues from the personal income tax which is the only clearly progressive tax imposed by the federal government. This ignores the fact that the federal government raises approximately half of its tax revenues from other taxes that are not so clearly progressive.

The primary purpose of pension plans is to deal with the distribution of income between the retired population and the active labour force. Nonetheless, in an ideal state the public pension system in total, and the C/QPP in particular, would also be organized so that they would be progressive on both a lifetime and an annual basis and it would avoid putting an excessive burden on low income earners on an annual basis. This objective is very

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important to us and below we will discuss some possible remedies for problems we see emerging in this area in the future. However, we do not believe that it is the sole basis on which decisions regarding C/QPP financing can be made. In this regard there are two issues that have been raised widely and which deserve comment here.

Some commentators have noted that the GIS delivers the greatest net benefits to people with low lifetime earnings and that because of the way that the GIS interacts with C/QPP benefits, the value of C/QPP benefits are reduced by 50¢ per dollar for people with low lifetime earnings. The progressiveness of the GIS stems from the fact that benefits tend to be inversely related to lifetime earnings and from the fact that the tax base that supports the GIS is more progressive than the C/QPP tax base. This has led some commentators to argue that it is not worth raising C/QPP benefits for low income contributors: they would be better off on a net lifetime basis if they were looked after through GIS. While the logic of this argument is impeccable, we are not persuaded by the conclusion at which it arrives. We believe that it makes a great deal of difference to peoples' sense of self-worth whether they receive their retirement income from the income tested GIS or the earnings related C/QPP. Specifically, we believe that most people would prefer to receive their retirement income from the C/QPP rather than the GIS. In addition, it is worth remembering that the evidence which suggests that the GIS tax base is more progressive than the C/QPP tax base is influenced in some analyses by the incorrect assumption that the GIS is paid for entirely out of personal income tax revenue.

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Also, while there are problems with the C/QPP tax base that will be noted below, there is also a danger in identifying these problems without noting that there are positive reasons for establishing the C/QPP tax base in the way it has been established. Currently contributions are required on earnings from employment and self-employment up to a maximum level of pensionable earning (YMPE) which is approximately equal to the average industrial wage. The contributions for employees are divided equally between employees and employers (currently 1.8 per cent each) and employee contributions are exempt on earnings up to a yearly basic exemption (YBE). The YBE is 1/10th of the YMPE rounded off to the nearest lower $100; currently the YMPE is $16,500 and the YBE is $1,600. If a worker's annual contributions fall below the level of the YBE then the employee contributions are refunded and no earnings are recorded for the worker for that year. At age 65, the worker's retirement benefits are related to their contributory earnings (i.e., earnings on which contributions have been made). It should be noted explicitly that the C/QPP tax base excludes earnings above the YMPE and all forms of property income such as: dividends, interest payments, rental income, and so on. Also, despite the nominal division of C/QPP contributions between employees and employers, it is our view and the view of most students of taxation that the actual burden of employer contributions will be passed back to employees in the form of reduced wages and salaries. Thus, the full burden of C/QPP contributions should be treated as if they are borne by employees.

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Whatever the distributional effects of these arrangements might might be, they do have a certain merit that should not be ignored when alternative arrangements are being proposed. They certainly create a sense of participating in an arrangement that will ultimately deliver each contributor's own retirement income. The direct proportionality of benefits to earnings up to the YMPE and the virtual proportionality of contributions also contributes to a sense of even-handedness about the C/QPP tax base and benefits. The C/QPP certainly does not inspire thoughts of a degrading welfare scheme. In addition, the channelling of C/QPP revenues into special accounts that are not subject to an annual parliamentary approval gives C/QPP expenditures a degree of security against short-run political interference. All of these points are worthy of consideration when contemplating a change to the C/QPP tax base.

The public pension system as a whole and the C/QPP in particular both satisfy our concern that Canada's public pension plans have a progressive impact on the distribution of lifetime earnings. The OAS and GIS confer greater net benefits in an absolute dollar sense on people with low lifetime earnings than they do on people with higher lifetime earnings. It was noted above that during the period when net intergenerational transfers are being generated by the C/QPP, there are greater transfers of wealth to contributors with higher earnings. This has led some commentators to treat the C/QPP as if it had a regressive impact on the distribution of lifetime earnings. However, the net transfers of wealth in an absolute dollar sense is not the relevant measure of the lifetime distributional effect of the C/QPP.

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In our view the absolute dollar transfers must be related to the lifetime earnings patterns of contributors to determine whether the lifetime earnings of different income groups are being made more equal or less equal by the operation of the C/QPP.

When the lifetime distributional effect of the C/QPP is viewed in this light, our perception of its distributional impact changes. It is very slightly progresive in its distributional impact on lifetime earnings up to the YMPE thanks to the YBE - and distinctly progressive in relation to higher levels of earnings. Moreover this generalization holds during all phases of its existence. Thus the lifetime distributional effect of the C/QPP does not lead us to the conclusion that the C/QPP tax base is in need of reform. At the same time we should acknowledge that the lifetime distributional effect of the C/QPP is not as progressive as the OAS and GIS. However, as we have stressed throughout this document, it is an absolutely essential program in terms of the objective of pension policy which is to maintain retirement incomes at a reasonable level in relation to pre-retirement earnings.

If we look at the distributional effect of the public pension system on an annual basis, then attention will be focussed on the tax base alone; the benefits are simply taken as given. As far as the OAS and GIS are concerned, the tax base is simply the tax base of all sources of federal taxes. While this tax base is in need of major reform, this issue will not be discussed here.

The existence of the YBE gives the C/QPP contributions a slightly progressive character on an annual basis from zero earnings up to the YMPE at which level of earnings C/QPP contributions cease being made. Beyond the YMPE, C/QPP contributions come to represent a smaller and smaller proportion of total earnings which gives them a regressive character. However, the regressive character of C/QPP contributions beyond the YMPE is also reflected in the fact that C/QPP benefits beyond the YMPE represent a smaller and smaller proportion of pre-retirement earnings.

The annual distributional effect of the C/QPP has not been a serious problem under the plans to this point in their history, largely because the contribution rate of 3.6 per cent from employers and employees has been so low. Nor is it likely to be a problem in the immediate future if our reform proposals were accepted. Even if our reform proposals were accepted and applied retroactively to all C/QPP benefit recipients, the combined employer and employee contribution rate would be, at most, 6.5 per cent in 1981 on a pay-go basis. However, the C/QPP contribution rate will have to increase in the future as larger percentages of the elderly become eligible for C/QPP benefits and as the population over 65 grows in relation to the size of the active labour force. In the next section of this paper we argue at greater length that the contribution rate required to support the C/QPP beyond the beginning of the next century cannot be determined with a great deal of accuracy. Nonetheless we have to be prepared to face combined employer and employee contribution rates of 15 to 17 per cent if our reform proposals are adopted. Should contribution rates of this level be required, two related problems with the annual distributional effects of the C/QPP will emerge.

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The question of the absolute burden of C/QPP contributions on low income earners will become an issue. In other words, the question whether low income earners will have enough income left after giving up 15 to 17 per cent of their earnings in C/QPP contributions will arise. In addition, the distributional effects of making C/QPP contributions tax deductible will become a more acute issue. Since this issue has not been discussed thus far, it deserves a word of comment.

C/QPP contributions are deductible from income for purposes of determining taxable income under the personal income tax. This arrangement follows from a principle that has been applied to personal insurance arrangements, the C/QPP and unemployment insurance - namely that if the benefits are taxable the contributions will not be and vice versa. Unfortunately this principle tends to have a regressive effect which stems from the fact that a dollar of income removed from taxable income is worth more to a high income earner who is paying high rates of personal income tax, than it is to a low income earner. In fact, for a low income earner who is not paying any personal income tax anyway, there is no advantage in being able to remove another dollar from taxable income.

In Table 5 we have illustrated the distributional effect of the tax deductibility of C/QPP contributions by expressing C/QPP contributions as a percentage of earnings on a gross and a net basis. Gross contributions are total C/QPP contributions ignoring their tax deductibility: thanks to the YBE, they are slightly progressive up to the YMPE and regressive thereafter as the maximum contribution represents a smaller and smaller

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percentage of total earnings. Net contributions are determined by deducting the tax saving that arises from the tax deductibility of C/QPP contributions from the total C/QPP contribution. The net contributions tend to be regressive because the tax savings grow more than proportionately in relation to income. This happens because C/QPP contributions are growing in rough proportion to income while tax savings are growing at a faster rate thanks to the progressive rate structure under the personal income tax. The other thing to notice is that the gross and net contributions have been calculated at 3.6 and 15.0 per cent contribution rates and that the net contribution rates are even more regressive at the higher contribution rate. Thus, while the net contributions are regressive at any contribution rate, their regressive character becomes an increasingly acute problem as the contribution rate rises.

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TABLE 5

Total C/QPP Contributions and C/QPP Contributions Net of the Tax Savings Resulting from their Tax Deductibility, by Earnings Level 1980

	Annual Earnings Level			
	$4,000	$8,000	$16,500	$33,000
Total employer and employee contributions				
Combined 3.6% contribution rate	$ 115	$ 259	$ 565	$ 565
% of earnings	2.9%	3.2%	3.4%	1.7%
Combined 15.0% contribution rate	$ 480	$1,080	$ 2,355	$ 2,355
% of earnings	12.0%	13.5%	14.3%	7.1%
Employer and employee contributions net of tax savings				
Combined 3.6% contribution rate	$ 112	$ 191	$ 395	$ 301
% of earnings	2.8%	2.4%	2.4%	0.9%
Combined 15.0% contribution rate	$ 467	$ 797	$ 1,633	$ 1,251
% of earnings	11.7%	10.0%	9.9%	3.8%

Notes: Assumptions concerning the CPP:

YMPE = $16,500 which is approximately the AIW in 1980
YBE = $ 1,600 and is only applied to employee contributions

Assumptions underlying net of tax saving calculations:

All income is comprised of earnings from employment.

The 1980 tax rates, deductions and tax credit apply.

Provincial taxes amount to 47% of the basic federal tax.

Taxpayers claim the basic personal exemption, the $100 standard deduction, unemployment insurance contributions, and the employment expense deduction.

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As the C/QPP contribution rate rises in the future, the C/QPP contributions may impose an excessive burden on C/QPP contributors with low levels of earnings and the regressive nature of net C/QPP contributions may become completely unacceptable. We have not, however, formulated a specific set of proposals to redress these problems. There are a number of alternative ways of dealing with them, including:

1) increasing the YBE;

2) substituting a system of tax credits for the tax deductibility of C/QPP contributions;

3) requiring C/QPP contributions on earnings above the YMPE;

4) having contributions made to the C/QPP from general government revenues; and,

5) imposing a proportionate tax on all taxable income.

Each of these alternatives would reduce the burden of C/QPP contributions on low income contributors but each alternative is different in terms of who would be required to pick up the burden that has been removed from low income contributors. The alternatives also vary in terms of the roles of the C/QPP versus the general government budget in providing relief

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to low income contributors. While we see each of these alternatives as having merits and weaknesses, we have not yet resolved that one is clearly superior to the others and we believe that this issue ought to be resolved in the context of the regular five year reviews of the contribution rate that we are proposing.

Section VI : The Cost of Improving Public Pension Benefits

(1) Introduction

During the course of the debate on pension reform, the question whether public pension benefits should be increased has been the focal point of much of the debate. It has been striking that throughout the debate, no one has tried to argue that there is a method of increasing retirement incomes that is more efficient or effective than increases in public pension benefits. However, what has been argued time and again is that increases in public pension benefits are too costly - especially in light of the predicted aging of the population. While this argument has been made with respect to the public pension system as a whole, it has been made with particular force in relation to proposed increases in C/QPP benefits. In this regard the point has been argued that because the portion of the population over 65 will be growing during the coming decades, any increase in C/QPP benefits should be avoided because it will lead to intolerably high contribution rates.

At first sight the argument that increased public pension benefits are too costly appears to be an argument about what their costs will be in the future. At the very least it presumes that we have a fairly clear knowledge of what the costs will be. However, the argument that public pension benefits are "too costly" involves a good deal more than arguing what the costs will be. It also involves making a judgement as to the acceptability of the costs. In the same way that knowing the price of a car or T.V. does not tell us whether we should buy it, the price or cost of public pensions

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does not tell us whether they are 'worth it". We must have some standard for judging the acceptability of the costs.

In this section we will discuss two distinct issues: what are the costs of increasing public pension benefits, and how can their acceptability be judged? With regard to the former issue we will first discuss the question of the aging of the Canadian population which underlies so much of the concern about costs. Then we will discuss the cost of our proposals to increase OAS, GIS and C/QPP benefits. In discussing the OAS, GIS and C/QPP, we are assuming that the OAS and GIS will continue to be financed on a purely pay-go basis and that the C/QPP will be financed on this basis as well, in line with our recommendations.

(2) The Aging of the Canadian Population: An Underlying Concern

In the preceding section of this paper, one of the points that was emphasized was that estimates of the cost of public pension plans are only reliable for a period of 20 years into the future. Over longer periods of time cost estimates become increasingly unreliable because the factors that will influence costs are less predictable over longer periods of time. This point deserves some further development at the beginning of this discussion since it has a major influence on what follows.

Under pay-go pension plans, the tax or contribution rate required to support the pension plans will depend on two key ratios:

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1) the number of people receiving benefits, compared with the number of people making contributions or paying taxes to support the pension plans; and,

2) the level of benefits being paid compared with the level of income or earnings on which taxes or contributions are paid.

When fears are expressed about the aging of the population, the fears are focussing on the first of these two ratios. What is being said is that the ratio of benefit recipients to taxpayers or contributors will increase, and the required tax or contribution rates will rise as a result.

The ratio of benefit recipients to taxpayers or contributors will be influenced by a number of factors including: the life expectancy of older people; rates of immigration; the number of people in the employable age group (18 to 64) who actually enter the paid labour force; and so on. However, over long periods of time, the fertility rate - that is the number of live births per adult woman - will affect the ratio of benefit recipients to taxpayers more profoundly than will any other single factor. A low fertility rate will give rise to a high ratio of pensioners to taxpayers and a high fertility rate will give rise to the opposite effect.

Generally speaking, the tax paying population can be viewed as the population between ages 18 to 20 and age 65: this perspective is especially relevant in the case of the C/QPP since contributions are only made

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CHART I

Canadian Total Fertility Rates,* 1921-80

* Average number of children expected to be born per 1000 adult women

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between ages 18 and 65 when retirement benefits begin to be paid. Thus at any moment in time we know the size of the potential tax paying population for up to approximately 20 years into the future since the potential working age population will already have been born, and we also know with a reasonable degree of certainty how many retirement benefit recipients there will be since these people are also living. This, then, is the reason for our saying that the cost of pay-go public pension plans can be predicted with a reasonable degree of accuracy for periods of up to 20 years into the future. But when one tries to project the cost of public pension plans over longer time frames, the problem arises that the ratio of pensioners to taxpayers depends on future fertility rates which tend to be highly unstable over time. Chart 1 traces out the path of Canadian fertility rates over the period from 1921 to 1980 and confirms the instability to which we are referring.

Columns 1 to 3 of Table 6 provide an illustration of the impact of a changing birth rate on the age structure of the population as a whole. The data in the entire table are projections of the percentage of the Canadian population over age 65 which can be taken as a measure of the percentage of retirees in the entire population. The significance of columns 1 to 3 is that all of the factors that will influence the percentage of the population over 65 are held constant in these projections except for the fertility rate. The fertility rate is allowed to vary between 1500 live births per 1000 adult women (column 3) which is lower than any recorded Canadian birth rate and 3000 births per 1000 (column 1). Through to the year 2001, the highest projection of the percentage of the population over 65 in columns 1 to 3 is only 126

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TABLE 6

Percentage of the Canadian Population Over 65, 1976 Actual and Projections to the Year 2051

Year	Actual 1976 and Projected Percentages				
	1	2	3	4	5
1976	8.7	8.7	8.7	8.7	8.7
1981	9.3	9.4	9.5	9.2	9.5
1991	9.9	10.7	11.3	9.7	11.3
2001	10.1	11.5	12.7	9.7	12.6
2011	10.1	12.4	14.4	9.6	14.5
2021	11.5	15.4	19.1	10.9	19.5
2031	12.4	18.3	24.2	11.8	24.8
2041	10.7	17.5	25.2	10.0	25.8
2051	10.9	17.6	25.2	10.3	25.8
Key Assumptions					
Fertility rate	3.0T	2.1T	1.5T	3.0T	1.5T
Immigration rate	———	120,000	———	180,000	60,000
Mortality rate	———	medium decrease	———	low decrease	high decrease

Notes: The notations concerning fertility rates are those used in Table 3.

Life expectancy is inversely related to mortality rates so that a rapid decline in mortality rates implies a larger population over 65. The details of the mortality assumptions are spelled out in the source noted below.

Lines across the various columns indicate that a common assumption was used in the projections linked by the lines.

Source: Frank T. Denton, Christine H. Feaver, Byron G. Spencer, The Future Population and Labour Force of Canada: Projections to the Year 2051 (Economic Council of Canada, 1980)

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per cent of the lowest. But, by the year 2031, the highest of the three projections is 195 per cent of the lowest, and by 2051, it is 231 per cent of the lowest. Bearing in mind that all of the fertility rates that have been projected into the future in making these estimates are plausible, it should be clear why we say that neither the age structure of the population nor pay-go public pension costs can be predicted with a great deal of accuracy for periods of more than 20 years in the future. For the coming 20 years, the range of plausible age structures is relatively narrow, but this is not the case as we try to estimate the age structure of the population at points further into the future.

Before leaving this discussion of the ratios of pensioners to taxpayers, several things are worth noting. First, Table 6 includes column 4 which presents estimates of the percentage of the population over 65 that are even lower than column 1. The projection in column 4 assumes the same fertility rate as in column 1 but assumes a higher rate of immigration and a smaller increase in average life expectancy. On the other hand, column 5 shows an even larger percentage of the population over 65 than does column 3. The projection in column 5 assumes the same fertility rate as column 3 but it assumes a lower rate of immigration than column 3 and a greater increase in average life expectancy. Two things are striking about the projections in columns 4 and 5. The first is that they are so similar to the projections in columns 1 and 3: this reflects the overriding influence of the fertility rate assumption in influencing the projections. The second thing, which follows from the first, is that over the next 20 years the percentage of the population over 65 is likely to

fall within a rather narrow range. Column 4 suggests the lower end of the range and column 5 the upper end of the range. But, when we look beyond the coming 20 years, the range within which the percentage of the population over 65 will fall becomes increasingly wide. This indicates the uncertainty with which the age structure of the population can be predicted over periods exceeding 20 years into the future.

The fact that the fertility rate is the single factor with the greatest effect on the future age structure of the population has a significance that is very important. If the percentage of the population over 65 grows substantially due to a declining fertility rate, the growth in the percentage of the population over 65 will be offset almost exclusively by a reduction in the percentage of the population under 20. It will not be offset by a reduction in the working age population. This point is illustrated in Table 7 which shows projections of the percentage of the population between ages 20 and 64. Columns 1 to 5 in Table 7 are calculated on the basis of the same assumptions as columns 1 to 5 in Table 6. What is so striking about the data in Table 7 is the relative stability of the projected percentage of the population within each column and the similarity in the percentages among the different columns. Once again, if the percentage of the population over 65 grows as a result of a declining fertility rate, the growing percentage of people over 65 will be offset by a decrease in the percentage of the population under 20. The significance of this point is discussed below (pp. 123-125). It is worth noting too that the projections which show the largest growth in the working age population are those that also show the largest growth in the population over 65.

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TABLE 7

Percentage of the Canadian Population Aged 20-64, 1976
Actual and Projections to the Year 2051

Actual 1976 and Projected Percentages

Year	1	2	3	4	5
1976	55.4	55.4	55.4	55.4	55.4
1981	57.1	58.1	58.8	57.2	58.8
1991	54.4	58.9	62.3	54.5	62.4
2001	52.9	58.9	63.9	53.2	64.1
2011	54.8	60.5	64.8	55.1	65.1
2021	51.8	57.7	61.7	52.2	61.7
2031	51.2	55.4	57.5	51.6	57.3
2041	53.0	56.5	56.9	53.4	56.8
2051	52.1	56.1	56.9	52.5	56.7

Key Assumptions, Notes, Sources: See Table 6.

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Before leaving this discussion of the ratio of pensioners to taxpayers, one final point should be mentioned. When the future pay-go costs of public pension plans are being estimated, the persons making the estimates are inevitably forced to make assumptions about fertility rates and so on so that they can estimate the ratio of benefit recipients to taxpayers or contributors. In doing so, they are forced to treat an uncertain and fluctuating factor - namely fertility rates - as if it were both certain and constant. Moreover, it bears special emphasis that in doing so, the common practice has been to project, for decades into the future, fertility rates that are very low by historical standards. The most commonly used birth rate for purposes of long term projections is 2112 live births per 1000 adult women which is the fertility rate that is sufficient to keep reproducing the existing population. This is the fertility rate used in calculating the data in column 2 of Tables 6 and 7. Some commentators have argued that this fertility rate assumption is too high because the fertility rate in the very recent past has been below this level. However, the practice of projecting very low fertility rates for long periods into the future strikes us as misguided for two reasons. First, it does not show any sensitivity to the fluctuating nature of fertility rates which is documented in Chart I. Second, it is also insensitive to the widespread practice of postponing child birth which will create the short run appearance of a decline in total fertility that will reverse itself. This phenomenon was recognized in the technical work done for the Royal Commission on the Status of Pensions in Ontario and more recently in popular literature in Canada and the United States. Thus we believe that the common practice of projecting very low fertility rates for decades into the future gives an upward bias to

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the estimates of the costs of pay-go public pensions by implying that the ratio of pensioners to taxpayers will be higher than it is likely to be.

The tendency to overestimate the future pay-go cost of public pension plans is aggravated further by the use of immigration assumptions that strike us as being very low. From the foregoing it should be clear that the immigration assumption will have a much smaller effect on the ratio of retirees to taxpayers than will the fertility rate assumption. Nonetheless, it is worth noting that the assumed number of immigrants used in calculating the data in columns 1 to 3 of Tables 6 and 7 was 120,000 per year and in column 5 it was raised to 180,000 per year. The 120,000 number was assumed to be the most probable. Yet this is ten to twenty-five thousand less than the targeted number of immigrants to Canada for each of the next three years and is less than the actual number of immigrants to Canada in seven of the ten years up to and including 1980.

(3) What Will Increased Public Pension Plan Benefits Cost in the Future:

It should be evident from the foregoing that we view the future costs of public pensions a matter that needs to be treated with caution - especially insofar as those estimates try to predict costs over periods in excess of 20 years. However, we also have a responsibility to our members and the public to be as forthright and candid as possible in discussing the cost implications of our proposals. We have a major stake in the perpetuation of the public pension plans in which we have called for increased benefit

levels and we recognize that unanticipated increases in the cost of these plans could give rise to a reaction against the level of benefits they are designed to provide.

In assessing the future cost of increased public pension benefits, we have tried to relate increases in cost to the levels of taxes or contributions that people will have to pay in order to support the improved benefits. We believe that this is the issue that concerns most citizens in relation to costs. We hasten to add that this is quite a distinct issue from the cost to the economy in a global sense. Because pay-go public pension plans take money from taxpayers and contributors and pay it out to retirees, the only direct cost to the economy that stems from these programs is their administrative costs which amount to only 1/2 per cent of current benefit payments. It should also be acknowledged that while the direct costs to the economy are negligible, it has been argued that the operation of pay-go public pensions could have undesirable secondary effects on the economy. The main argument that has been raised in this regard is that they reduce savings, investment and economic growth. However, as we have argued elsewhere (pp. 72-74), the tide of existing evidence does not support this view and, in any case, the objectives of pension policy should not be subordinated to the requirements of savings and investment policy. Nonetheless, it is still possible that the taxpayers and contributors could reject the level of taxes and contributions imposed on them in the process of transferring income to the elderly. Therefore, the impact of increased benefits on taxes and contributions remains an issue even if the total cost to the economy is not.

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In assessing costs we have been forced to rely on published sources of information about the costs of the three public programs for which we have proposed increased benefits. The result of this situation is that the data in what follows are not based on a set of proposals that are identical to our own. However, the only proposal that we have made that could significantly increase tax or contribution rates that is not accounted for in what follows, is the granting of limited access to full public pension benefits to people between ages 60 and 65. In other cases where the detail of the programs on which the cost data we have used depart from the detail of our proposals, this will be noted along with a comment on the impact of the discrepancy on costs. Against the background of these comments we will assess the impact of our proposals on the cost of the OAS, GIS and C/QPP through to the year 2000 and then make some more general comments on the cost of our proposals that are relevant to longer periods of time.

OAS: Our proposal for a 25 per cent increase in OAS benefits would increase the cost of the program immediately by approximately the same percentage. The cost of the program now represents about 12.0 per cent of all federal government tax revenues on a national accounts basis, and federal tax revenues would have to increase by approximately 3.0 per cent in order to accommodate this increase in benefits. Tax revenues of all levels of government, which may be the more relevant measure, would only increase by 1.4 per cent to accommodate this change. If the benefit levels are maintained at approximately 17½ per cent of the average industrial wage as we have proposed, then the taxes levied

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to support the program should grow in approximate proportion to the percentage of the population over 65. By the end of the century this would mean that the tax increases of 3.0 per cent and 1.4 per cent noted above would grow to 4.0 per cent and 1.9 per cent assuming that the percentage of the population over 65 grew at the rate implied by column 2 of Table 6.

The proposals we have made with regard to immigrants and the OAS are more than fully accounted for in this estimate. But as was noted above, no account has been taken of the possibility that some people between ages 60 and 65 would be receiving OAS benefits under our proposal.

GIS: Benefits under the GIS program are split in approximately a 64:36 ratio between singles and couples. We have recommended a 25 per cent increase in GIS benefits for singles and an 11½ per cent increase for couples. GIS benefit payments now represent 4.3 per cent of all federal government tax revenues, and tax revenues would have to increase by 0.9 per cent in order to accommodate our proposed increase in GIS benefits. Tax revenues of all levels of government would have to increase by 0.4 per cent.

Over long periods of time GIS expenditures would be heavily influenced by our C/QPP proposals. At present GIS benefits are paid to recipients of maximum CPP benefits if they have no income other than OAS and CPP benefits. An increase in C/QPP benefits will reduce people's need to rely on the GIS. Indeed, it has been estimated that a doubling of the C/QPP benefits paid to people now receiving GIS would result in a 15 per cent drop in GIS

expenditures. A larger reduction in GIS expenditures in the future would stem from the fact that an increasing portion of the over 65 population will be eligible for full C/QPP benefits. Some reduction in GIS expenditures will also result from the modest improvements that have been made in private pension plans in recent years. If the offsetting effects of C/QPP benefit increases and the improvements to private pension plans are ignored, then GIS expenditures might be expected to grow in rough proportion to the percentage of the population over 65. Thus the 0.9 per cent and 0.4 per cent figures in the previous paragraph would become 1.2 per cent and 0.5 per cent in the year 2000.

The comments made with regard to immigrants and the prospect of people between 60 and 65 receiving public pension benefits apply to the GIS as well as to the OAS.

C/QPP: Our proposals with regard to the C/QPP are of such detail that it has been impossible to rework available data to arrive at required contribution rates that would follow from the details of our proposals. However, to treat our proposals as if they would involve a doubling of the required contribution rates gives a valid approximation of the required contribution rate that would follow from our proposals. More than one half of the required C/QPP contribution rate is accounted for by the retirement benefit which we are proposing to double and while our proposals would more than double the cost of some benefits (e.g., disability benefits) others are not affected at all by our proposals. Based on the data in Table 3, it is apparent that a doubling of C/QPP benefits

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would give rise to a required contribution rate of 8.2 to 11.6 per cent of contributory earnings by the year 2000.

We have also managed to rework some expenditure and contribution rate data that are based on C/QPP reform proposals that are virtually identical with our own with regard to the survivor and disability benefits but which assume a retirement benefit level that is slightly lower than what we are proposing. The assumptions used in calculating the data that we have reworked tend to be biased toward giving a high estimate of the contribution rate and they include some expenditure increases that are not pertinent to our proposal. Nonetheless, it is worth reporting that our calculations based on these data would suggest that a pay-go rate of approximately 12 per cent in the year 2000 would be the outer limit of the rate required to cover the cost of a 50 per cent retirement benefit coupled with our disability and survival proposals.

The proposals underlying the data we reworked did not take account of the immigrant proposals we are making nor did they take account of the special drop-out rules we are proposing. However, the impact on the C/QPP contribution rate resulting from these proposals would be minimal. The federal Department of Insurance has estimated that a special drop-out rule covering periods spent tending children under seven would add only 1/10th of one per cent to the contribution rate in 2005 and 3/10ths of one per cent in 2025. While no comparable data are available on our immigrant proposal, the proposal has such limited scope (it only applies to a portion of the 15 per cent of the population born outside Canada) and it only applies under such limited conditions, that it is not likely to have a significant effect on the required pay-go contribution rate.

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As we emphasized earlier on in this section and in the preceding section, estimates of the required pay-go contribution rate for periods of more than 20 years into the future are frought with difficulties. This point is well illustrated in Table 5 which shows pay-go contribution rates for the existing plan ranging between 5.3 and 10.0 per cent in 2030. Clearly this is not a very precise picture of what the required contribution rate will be and enlarging the numbers to take account of increased C/QPP benefits adds nothing to the clarity of the picture. However, it is true that all projections of the required contribution rate show the need for an increase in required contributions during the first three decades of the next century. In all cases this stems from a growing ratio of retirees to contributors that results from the underlying assumptions - and especially the fertility rate assumption - that have been used in calculating future pay-go contribution rates. It may be worth noting too because of the popular misunderstanding of this issue, that the increase in the contribution rate does not stem specifically from the aging of the post-war baby boom population; it stems primarily from the projection of low fertility rates for decades into the future. (Indeed the Royal Commission on the Status of Pensions in Ontario has estimated that in 2030, the pay-go contribution rate would only be .29 per cent below its projected rate of 9.19 per cent if the fertility rate between 1945 and 1965 had been at average levels for the entire period from 1926 to 1975.)

We have little doubt that the pay-go contribution rate will have to increase after the year 2000 as all of the projections suggest. But we would insist that no one has, or can have, a very clear idea of exactly what

required contribution rate will be as one moves further beyond the year 2000. In preparing our submission to the Royal Commission on the Status of Pensions in Ontario in 1978, we had an actuarial firm estimate the cost of our two most expensive proposals for the reform of the C/QPP - namely a 50 per cent C/QPP retirement benefit and an increase in survivor benefits of a similar magnitude to what we are now proposing. Since retirement and survivor benefits account for about 80 per cent of the cost of the plans, it is worth noting that the firm projected the required contribution rate to be approximately 15 to 17 per cent of contributory earnings in 2030. However, like every other projection of the required contribution rate, this one also involved the projection of low fertility rates for decades into the future and its reliability is therefore no less suspect than any other.

As we mentioned in the previous section, it seems to us that the only reasonable way to deal with the uncertainty of required pay-go contribution rates is to institutionalize a process for reviewing the required contribution rates every five years. The review process should focus on contribution rate increases required in the next 20 years and recommend annual rates of increased contributions that would meet the pay-go rate required 20 years hence. The review process should not become absorbed with trying to ponder required contribution rates over time periods that are so long that nothing can be said with certainty.

The formal process for reviewing the C/QPP contribution rate that we are proposing and the rapid phasing-in of new benefits will eliminate

the need for future generations to face abrupt and unexpected increases in C/QPP contributions. Thus, if future generations maintain a commitment to guaranteeing adequate retirement incomes, we do not foresee the likelihood of a reaction against the level of required contributions and benefits that we are proposing. Nonetheless, someone might offer the objection that we have not provided an iron-clad guarantee that future generations will not try to reduce the C/QPP benefits we are proposing in order to relieve themselves of required contributions. While this hypothetical possibility exists, there is no alternative set of pension arrangements that avoids this potential problem. Future generations of workers might also rebel against C/QPP contributions levied on a full cost basis or private pension contributions for that matter. In our view, the likelihood that future generations of workers will rebel against the cost implications of our proposals is minimized by the following considerations:

1) future generations will be covered by pension arrangements that will guarantee adequate incomes in retirement to all middle and low income workers of their generation;

2) through the rapid phase-in of C/QPP benefits, and OAS and GIS increases, today's workers are making a commitment to today's elderly which enhances their claim against succeeding generations;

3) our financing proposals will minimize the cost of providing adequate retirement incomes and protect future generations of workers against unexpected increases in required contributions.

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By way of contrast, fully funded public pension plans involve a number of problems noted in the previous section including the probability of a higher long run contribution rate and a vulnerability to significant short run fluctuations in required contributions. Private pension plans cannot even make a plausible promise of adequate retirement incomes to any generation of workers.

Before ending this discussion there are three points that should be noted. The first is that when we consider the projections of the required C/QPP contribution rates in the future, it is always important to remember that contributions are currently imposed on a narrow tax base (earnings from employment and self-employment up to the YMPE). As we noted in the previous section, the required contribution rate could be lowered if the tax base was broadened. Indirect evidence of the impact of changing the tax base can be derived. Data published by Health and Welfare Canada in Canada Pension Plan Contributions, 1978 shows that approximately $2.0 billion in contributions were made that year. Yet if the 3.6 per cent contribution rate had been imposed on all of the $93.8 billion in earnings of C/QPP contributors, then $3.4 billion in contributions would have been made. To put it another way, if all earnings were taxed, the same volume of contributions would have been raised by a contribution rate of 59 per cent of that actually imposed. The contribution rate would have been lower again if all $141 billion of income reported for tax purposes or all $189 billion in personal income had served as the tax base. As we noted in the previous section, there are reasons for being cautious about abandoning the current tax base. Nonetheless, the point should not be missed that there is scope for reducing the contribution rate by broadening the tax base.

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The second point that should be made is that at present there are a number of public and private programs that provide support for the elderly that are based on the valid premise that today's elderly are poor. For instance in the public sphere there are special urban transit rates for the elderly, provincial minimum income programs, subsidized housing programs and so on. In the private sphere there are special prices for entertainment for the elderly and direct transfers of income to older citizens - usually from their children. We are not advocating the termination of these programs but we do believe that as our proposals take effect the premise on which many of these programs are based will be eroded and their rate of growth will be diminished. While this phenomenon may be regrettable insofar as it means that increased retirement incomes resulting from our proposals will not lead to identical increases in the real net incomes of older Canadians, there are two positive things to be said about this phenomenon. First, we think it is far preferable to provide older Canadians with adequate retirement incomes and let them spend it as they see fit, than it is to support them with subsidy programs that force them to identify themselves as members of a group that is poor. Second, the cost of increased benefits from OAS, GIS and the C/QPP will be offset to a degree by reduced costs of programs that assume that the elderly are poor.

The final point that needs to be made here is that the prospect of increasing costs of providing retirement incomes depends primarily on a growing ratio of benefit recipients to contributors which, in turn, depends on

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a sustained period of low fertility rates. As we noted above, a sustained period of low fertility rates will give rise to an increase in the percentage of the population over 65 but this increase will be offset almost exclusively by a decrease in the percentage of the population under age 20. The percentage of the population in the working age range will remain stable in any case. The fact that an increase in the percentage of the population over 65 will be offset by a decrease in the percentage of the population under 20 is very important in view of the substantial public and private expenditures that are made on economically dependent youth. For example, the working age population is being taxed to support public programs that have young people as their major beneficiaries such as: education, child tax credits, family allowances, recreation programs, and so on. In addition, adult members of the labour force make substantial private payments in support of their children. Thus, if the percentage of young people in the population declines, the rate of growth in these expenditures will also decline.

It has been argued that because public expenditures per old person amount to three times public expenditures per young person, therefore a declining fertility rate will give rise to an increase in public expenditures on older people that will not be fully offset by declining expenditures on young people. However, it is very significant that this type of analysis deals only with public expenditures. Given that support for the older population has been taken on more completely by society as a whole than has support for the younger population, the fact that public expenditures on the part of the

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aged exceed those on dependent youth is hardly surprising. But, if account is taken of both public and private expenditures on the young and the old, the picture that emerges may be quite different. Unfortunately, this question has received little attention but the one German study we are aware of suggests that the public and private expenditures on the dependent young are 1/4 to 1/3 greater than on the older population. Thus, if we actually experience sustained periods of low fertility and the public and private expenditures on the aged increase as a result, there will be a decline in expenditures on the dependent young that may fully offset the increased expenditures on the old. To put it somewhat differently, the income available to working age adults to spend on themselves might be increasing as a portion of their total income in spite of the increased taxes and contributions being paid to support retirement income programs.

(4) Assessing the Costs of Increased Public Pension Benefits

Earlier on in this section it was noted that the argument that increased public pension benefits are "too costly" does more than attempt to tell us what their costs will be. It passes judgement on the acceptability of those costs. To pass judgement on costs, there must be an implicit or explicit standard for judging their acceptability.

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Throughout the debate on pension reform, those people who have argued that increased public pension benefits are too costly have seldom stopped to explain what standards they are using in making their judgement. Most typically their arguments are associated with propositions that have the aura of technical economic arguments. For example, the claim will be made that "the economy cannot afford increased public pension benefits" and this claim will be associated with a projection of the C/QPP contribution rate required in 2030 or 2050. The best that can be said of this line of reasoning is that it is incomplete; it might be more accurately characterized as deceptive and wrong.

From our point of view there are two possible technical bases for arguing that increased public pension benefits are too costly. First, one could argue that there is a less costly way of providing the same degree of retirement income protection as would be provided by an increase in public pension benefits. We do not believe that there is a less costly way nor has anyone tried to suggest that there is. A second technical argument would be that increased public pension benefits are too costly in the sense that they would have negative economic side effects that would be intolerable. In this regard it should be noted, first of all, that the economic side effects of public pension programs will depend almost entirely on the decisions that are made with regard to funding the plans, and the method of allocating any savings that might be generated by the plans. These decisions are quite independent of a decision with regard to the level of benefits and therefore few economic

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side effects can be said to follow from the level of benefits itself. Since we have called for a pay-go method of financing the C/QPP, this is the funding method, the side effects of which need to be considered.

Earlier on in this section, we noted that the direct economic costs of pay-go pension plans are the administrative costs which are trivial now and will likely decline in relation to total program costs if benefits are increased. (The cost of mailing a benefit cheque will be virtually constant regardless of the amount of the cheque.) Despite the virtual absence of a net economic cost to pay-go public pensions, we did note that the required contributions by low income earners could be a problem in the future. However, we have also noted that there are a number of methods available for dealing with this problem.

In addition, in the preceding section of this paper we noted that some have argued that pay-go public pension plans have undesirable effects on savings, investment and economic growth. But as we noted there, the bulk of the theoretical argument and empirical evidence does not support this view nor do any conclusions about pension policy follow from it automatically. Finally, the current method of allocating the limited savings that accrue under the CPP has been criticized on the grounds that it leads to higher levels of provincial borrowing and spending than would otherwise exist. Once again, as we noted in the preceding section, the evidence does not support this contention except possibly as it relates to the Atlantic Provinces. Indeed, the chief effect of provincial borrowing from the CPP Investment Fund seems to be to relieve the provinces of the need to borrow in capital markets.

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In short, there is no technical basis for arguing that increased public pension benefits financed on a pay-go basis are too costly. However, one might still argue that increased public pension benefits are too costly, but in doing so one would have to acknowledge that they are making a pure value judgement. Anyone who chose to argue this way would have to admit that they are simply saying that the benefits of increased public pension benefits are not worth the costs. Clearly the Canadian Labour Congress rejects this position. We believe that providing adequate retirement incomes is a social responsibility that cannot be shirked. We do not believe that the tax increases associated with increased OAS and GIS benefits or potential pay-go contribution rates of 15 to 17 per cent by 2030 under the C/QPP are out of line with the objective of guaranteeing adequate retirement incomes to all middle and low income earners. Indeed as far as the C/QPP is concerned, we would remind the reader once again that there is ample scope for reducing the required pay-go contribution rate by changing the tax base of the plan.

The choice we have made - that increased public pension benefits are worth the cost - is not unique by international standards. Canadian public pension benefits are not generous by standards of the western industrial world, especially the benefits to single individuals and two earner couples. This point was acknowledged by the Government of Canada in the Lazar Task Force Report. Moreover, the citizens of many Western European countries are already contributing more than 18 per cent of their earnings to public pension programs; thus in 1979 the following contribution rates to public pension plans were found: Austria (19.5); Finland (approx. 18); Germany (18); Italy (approx. 23.5);

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Netherlands (20.75); Norway (21.5); Sweden (20.5). While the programs operating in these countries are not perfectly comparable to what we are proposing for Canada, the point is that the citizens of these countries have decided that contribution rates at these levels are appropriate in order to insure adequate retirement incomes.

As a group the European countries that provide generous public pension benefits and have high levels of contributions to their public pension plans have two striking features. One of them is that the percentages of their populations over 65 are already at the outer boundry of what has been projected for Canada by the year 2000 and they are within the range of what has been predicted for later decades. The other thing to note about these countries is that their economies have not performed worse than Canada's despite "the burden" of public pension contributions. Indeed over the 1975-80 period, five of the seven noted above experienced rates of economic growth at least as rapid as Canada's and none faced such intolerable rates of unemployment. Given the fact that 15.9 per cent of the German population is over 65 already and that Germany has maintained a comparatively strong economic position, the following comment on the German situation is worthy of note:

> It is important to realize that accelerating aging is a normal and unavoidable by-product of ... [declining fertility] and that it has never led to an economic setback or a breakdown of pension systems, as was prophesied by many observers whenever birth rates turned down.

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If international experience tells us anything, it is that Canada would be entering the modern era by increasing its public pension benefits and that this would not lead to economic collapse.

The most fundamental question with regard to cost is philosophical, not technical - is providing adequate retirement incomes worth the cost? From our point of view there is only one acceptable answer: yes.

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Section VII: The Regulation of Private Pension Plans

Even if our proposal to double C/QPP benefits is adopted, there will still be a demand for private or occupational pension plans in Canada. Their role in providing basic retirement benefits at age 65 for middle and low income workers will clearly be diminished, but they will have a very important supplemental role to play. For example, for people with earnings in excess of the AIW, the public pension system will still not be able to provide an adequate retirement income even if it is reformed in the manner we have proposed. For an individual whose earnings were 1.5 times the average industrial wage (approximately $27,000 per year), the reformed public system would only replace about 40 per cent of their pre-retirement earnings; for a one-earner couple, approximately 60 per cent of pre-retirement earnings would be replaced. In either case, there is an evident need for private pension income if the retiree is going to enjoy an adequate income in retirement. In addition, we have proposed that the age of eligibility for public pension benefits be maintained at age 65 except in those cases where people are involuntarily retired after age 60 for reasons of ill health and long periods of unemployment. Nonetheless, we are aware of the fact that there is a growing demand to be able to retire before age 65, especially by workers in heavy industries. Thus we would anticipate that there will be a continuing demand for private pension coverage to provide retirement income prior to age 65 when public pension benefits begin to be paid. (We have prepared a background paper that discusses the likely future of private pension plans if public pension benefits are increased.)

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There are, however, a number of features of private pension plans that are totally unacceptable and need to be reformed through amendments to the regulations governing them. These regulatory changes are required regardless of the possible changes to the C/QPP and they are in no sense a substitute for increased benefits under the C/QPP.

Bearing in mind that the right to regulate private pensions follows the same jurisdictional lines as the right to pass labour legislation, the federal government and all ten provinces have authority to pass pension benefit standards acts. The federal government can pass legislation governing pension plans that cover workers in the territories and federally regulated industries such as: transportation, communications and banking; the provinces can pass legislation governing pension plans covering workers in all other industries within their province. So far, however, only seven of eleven jurisdictions have pension benefits legislation - namely, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia, and Canada - and New Brunswick has a draft pension benefits act before its legislature. In proposing changes to the regulations governing private pensions, we are not only asking that these changes be incorporated into the seven existing statutes, we would also like to see them incorporated into new legislation in the four provinces that do not now have pension benefits acts. We are also of the view that it is important to maintain the highest degree of uniformity possible in the legislation in all eleven jurisdictions so that plans operating in more than one jurisdiction will face a common set of requirements wherever

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they operate. Uniformity in legislation will also make it easier for pension plan members to be aware of their legal rights under pension plans wherever they might be working in Canada.

Most of the regulatory changes we are proposing relate to minimum benefit standards that should be met by all private or occupational pension plans. Many of these proposals have implications for the financial responsibility of pension plan sponsors while other proposals deal directly with this issue. Our views on the financial responsibility of plan sponsors requires two quite separate preliminary remarks.

Our experience in dealing with single employers who sponsor pension plans makes us acutely aware of the fact that no matter how pension costs might nominally be divided between workers and their employers, the costs are ultimately going to be borne by the workers. The key issue that typically arises in pension negotiations is how much a certain plan, or new feature of a plan, is going to cost. The point may be made in so many words or only by implication, but the point is made, nonetheless, that if the workers want pension benefits of a certain type, they will have to give up take-home pay to get them. Moreover, the employer's contributions to the pension plan are usually presumed to be spread evenly over all workers. If the employer's cost for a pension plan amounts to 10 per cent of payroll, it is usually presumed that all workers will give up 10 per cent of their earnings in exchange for it.

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The nature of the bargaining process just described has led us to a very strong conviction that private pension plans should be viewed as belonging to the workers covered by the plan in both an individual and collective sense. This view strongly conditions our views with regard to vesting and the rights of employees under private pension plans. Our experience also leads to the view that while the formal obligation of employers under defined benefit plans is to provide benefits as defined in the pension plan and to maintain the solvency of the plan, the employer also has an obligation to keep contributing to the plan at the rate implicitly agreed to in collective bargaining. This final obligation has not been met. If the experience of private pensions proves to be more favourable than was predicted by the actuary when the plan was established - as commonly happens - then the actual costs will be less than the predicted costs and the employer will reap the entire benefit of this positive experience by contributing less to the pension plan. This state of affairs strikes us as totally unsatisfactory. Earnings have been given up on the understanding that a certain amount of money is going to be contributed to the pension plan, but the employer may not actually be contributing at that level. This practice borders on fraud.

The notion of individual proprietorship in pension plans also leads us to the view that individual plan members should not be put in a position where they are unwittingly forced to subsidize the plan as a whole. The process whereby one plan member subsidizes the plan as a whole is most frequently associated with what happens when a plan member

terminates employment before retirement. If a plan member terminates employment before retirement without a vested benefit under a non-contributory plan (i.e., a plan where there is no deduction from the employees' paycheck for the plan), then the earnings given up by the worker will give rise to no benefit whatever and the terminating worker will be subsidizing the plan as a whole. Under a contributory plan, if a worker terminates without a vested benefit, the worker's contributions will be refunded but usually with a very low rate of interest attributed to their contributions. In this case a subsidy arises from the fact that the interest attributed to refunded contributions will typically be less than what the pension fund earned on the contributions. Even worse, if a young worker (under age 40-45) terminates under a contributory pension plan with a vested benefit, it is quite conceivable that their own contributions plus interest will amount to more than the full value of the vested benefit they have earned.

Subsidies of the sort just described are not confined to what happens when a worker terminates employment. They can also arise once a worker's benefits have been established: for example, when a worker terminates employment and becomes entitled to a vested benefit, or when a worker retires and becomes entitled to a benefit. To take a case in point, imagine a situation in which a male worker retires and becomes entitled to a benefit of $1,000 per year with a five-year guarantee. If the plan to which the worker belongs was being financed on the assumption that the assets of the plan would earn a return on investment of six per cent and it was

fully funded, $9,500 would have to be in the fund when the worker reached 65 to provide this benefit. This $9,500 in the fund can and should be viewed as earnings given up by the worker during his period of employment and investment returns on the earnings foregone. However, if on the worker's 65th birthday the returns on the pension fund jumped from six per cent to 10 per cent, the actual cost of providing the worker's benefit would drop from $9,500 to $7,460. The money not actually spent on the worker's benefit is then used to reduce the cost of the benefits being promised to future retirees. This particular form of subsidy is especially objectionable because it is typically brought on by inflation. Inflation raises rates of return on investment and hence lowers the cost of benefits of a fixed value while at the same time it reduces the purchasing power of benefits being paid.

This discussion of subsidies under private pension plans stemmed from our concern about the financial obligation of single employers who sponsor private pension plans. The immediate beneficiaries of these subsidies are private pension plan sponsors. However, it is important to acknowledge that literally tens of thousands of Canadian workers belong to pension plans that are not of the variety that has just been discussed. They do not belong to plans sponsored and operated unilaterally by single employers. They belong to multi-employer plans that cover workers in a number of firms within a single industry. Typically these plans have been instigated by unions in a particular trade or industry (e.g., woodworkers, machinists, actors, plumbers, packinghouse workers) and they are run by a joint union-management

Board of Trustees or by a solely union Board of Trustees. These plans share some of the subsidy problems just mentioned with regard to single-employer plans (e.g., deferred vesteds and retirees subsidizing the plans as a whole) and, therefore, the remedies to these problems are as important for multi-employer plans as they are for single-employer plans. On the other hand some of the subsidy problems noted above do not apply to multi-employer plans. For example, it is the normal practice under these plans that employers are committed to a fixed rate of contributions to the plan and any unanticipated positive financial experience of the plan is used to increase benefits.

Multi-employer plans include a number of positive features that are not available in single-employer plans. They provide a framework that allows small places of employment to participate in pension plans that are far superior to what an individual employer could provide. They generally provide portability within an industry that is not available within single-employer plans. However, they also pose unique regulatory problems. The relationship between single employers and their employees which lies at the core of many regulatory provisions does not apply directly to multi-employer plans. For example, the maximum vesting requirements are normally spelled out in terms of years of service with an employer under pension benefits legislation, whereas participation in a multi-employer plan is not usually linked to employment with a single employer. The concept of termination of employment which is usually quite clear cut under a single employer plan is far less precise a concept under multi-employer plans.

It may be, however, that the most important distinction between the two types of plan relates to the nature of the financial obligation of employers participating in multi-employer and single-employer plans. In single-employer defined benefit plans the employer has typically taken on quite specific obligations to provide benefits according to a prescribed formula and it is not too difficult to determine rules that will govern the way in which that obligation must be met. In multi-employer plans, the participating employers are normally obliged to contribute to the plan at a specific rate but delinquencies in remitting contributions are a common problem. In addition, multi-employer plans are frequently designed in a way that provides deliberate subsidies to places of employment that join established plans as new participants. In cases where an employer joins a plan knowing that they are facing insolvency, they can quite deliberately impose financial obligations on the rest of the plan participants. Unfortunately, the legal rights of the plan's trustees in relation to the individual employer are not clear. The problems of delinquencies and terminations are but two of a large number of problems that could be raised with regard to the financial obligation of employers under multi-employer plans. These problems are not dealt with specifically under pension benefits legislation and the solutions that are prescribed for single employer plans are not necessarily appropriate to multi-employer plans.

At this juncture we do not have a specific set of recommendations as to how multi-employer plans should be dealt with under pension benefits standards legislation. However, we are convinced that multi-

employer pension plans pose special regulatory problems and that government decision-makers should initiate discussions with trade unions and other interested parties to determine the best ways to deal with these problems. We also believe that if the reform of regulations proceeds before these problems are resolved, pension benefits legislation should be drafted in a way that acknowledges the special character of multi-employer plans and allows governments the scope necessary to adopt special regulations governing them.

Against the background of these introductory remarks, we will briefly review the proposals we are making for the reform of private pension regulations. In cases where the proposal is widely understood, our comments will be very brief and this should not be taken as a reflection of the importance we attach to the proposal. We also acknowledge that three of the proposals made below may require changes to statutes other than pension benefits acts. These proposals include: the proposed use of unisex mortality tables which will require changes to legislation that regulates the insurance industry; the equal division of private pension credits on divorce which will require changes to family law legislation; and the proposal to give legal recognition to the right of trade unions to bargain on behalf of their retired members which will require changes to labour legislation. Nonetheless, we have included the proposals here because they are part of the legal framework within which pension plans should operate. At the risk of stating the obvious, we would also point out that in cases where we have not commented on aspects of pension

benefits legislation, we are not proposing a fundamental change to the status quo. Funding requirements and the regulations governing pension fund investments are cases in point.

Eligibility to participate in private pension plans: In the past, private pension plans have frequently excluded people from the right to participate in them on the basis of age and/or service conditions. For example, a person might be excluded unless they had reached age 25 and put in two years of service. In addition, part-time workers have frequently been excluded from participation in private pension plans even if they are long-term employees of a company. This last exclusion has kept many women workers out of private pension plans.

Ideally, pension plans would not exclude anyone from participating who wanted to join a plan that covers other workers in the job category where they work. Therefore, we would recommend that age requirements be completely prohibited in rules governing eligibility to participate in private pension plans and that no more than one year of service be required in order to determine eligibility. A one-year of service requirement can be justified on the grounds that it saves the administrative cost of enrolling new members in the plan who will not have a lasting relationship with the employer. However, the practice of excluding part-time employees who would otherwise be eligible because they have met the service requirement, should also be prohibited.

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Vesting requirements and related issues: The only rationale for denying a full and immediate property right of workers in a pension entitlement earned under a pension plan is that doing so imposes administrative burdens on the plan in exchange for a trivial vested benefit. Therefore, we have not called for full and immediate vesting but believe that the maximum vesting period permitted under pension benefits legislation should be reduced to two years of service.

One of the consequences of a dramatically reduced vesting period is that workers will be reaching retirement age with vested benefits due to be paid to them from a number of sources. This poses problems for the retiring workers who may not have been able to keep track of all of the vested benefits due to be paid them and for the plan administrators who may not have up-to-date addresses for workers who left the plan many years before. The by-product of this situation is that it may be very difficult for vested benefits to actually be paid. We would, therefore, recommend that the Government of Canada establish a central pension registry that would keep track of deferred vested benefits due to be paid to terminating employees.

An issue that can arise in determining whether vesting requirements have been met is how breaks in service will be treated. For example, if a worker is covered by a plan that has a vesting requirement of ten years of service and he or she leaves the employer for two years after having put in nine years of service, the question arises as to what happens when the worker returns to work with the same employer. Can the worker add service after

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their return to previous service and, therefore, meet the vesting requirement in one year; or must they begin all over again to accumulate service? This issue will be resolved according to a "break-in-service" provision in the pension plan itself or provisions of a collective agreement. In no case, however, should a break-in-service of two years or less be treated as a termination of service. In suggesting this, we are aware of the fact that it will have to be reconciled with refunds of contributions under contributory pension plans.

Terminations of employment prior to retirement under contributory pension plans give rise to two types of problems noted in the introductory remarks to this section. It was noted there that if a terminating employee is not entitled to a vested benefit and has their contributions refunded with a rate of interest that is less than that earned by the fund, the terminating employee ends up subsidizing the plan. We would, therefore, recommend that the interest attributed to refunded contributions be at least equal to the net earnings on the fund over the period when the fund held the contributions. We think this is a more equitable arrangement than establishing an external measure (e.g., Government of Canada bond rates) of the minimum interest that must be attributed to employee contributions. If the external measure is less than the earnings of the fund, the terminating employee is still subsidizing the fund. Conversely, if the external measure exceeds the return on the fund, then the fund is providing a subsidy to the terminating member.

It was also noted in the introductory remarks to this section that a young worker terminating under a contributory pension plan faces the prospect of having made contributions which, with the returns they have earned, may be of greater value than the vested benefit the worker has earned. In other words, the employer would have contributed nothing to the vested benefit. We believe that pension benefits legislation should end this situation by requiring employers to contribute at least one-half of the value of vested benefits. If it should turn out that an employee's contributions plus interest amount to more than one-half of the value of a vested benefit, then the amount of employee contributions plus interest in excess of one-half should be able to be refunded to the employee, transferred tax free to an RRSP or left in the pension fund as a voluntary contribution.

A final problem relating to the vesting of private pension benefits is that an employee who has earned a vested benefit may die before becoming eligible to receive payment of the pension. At present, pension benefits legislation does not require a payment to the estate of a worker in this situation or to a surviving spouse and, in our experience, most pension plans are silent on this possible event and no benefits are paid. In our view, this situation is in conflict with the idea that workers acquire a property right in their private pension entitlements when they have satisfied vesting requirements. However, because workers who die with vested benefits owing to them will be in a variety of different situations with regard to their age and the existence or non-existence of survivors, it does

not seem reasonable to try to prescribe a single form of payment in the event that a worker dies with a vested benefit owing to them that has not begun to be paid. Therefore, we would recommend that in cases where an employee dies with a vested benefit owing to them that has not begun to be paid, the pension plan must pay either the commuted value of the vested benefit to the employee's estate or a continuing benefit of an actuarially equivalent value to a surviving beneficiary.

Naturally we are also concerned about the lack of inflation protection for vested benefits and we will address this issue immediately below.

Financial Obligations of Employer Plan Sponsors: It was noted above that pension agreements are often struck on the understanding that employers will be contributing a certain amount of money to the pension fund in support of the benefits agreed upon. However, it has frequently turned out that employers have not been contributing the amounts agreed to because the actual experience of the plan differs from what was predicted when the actuary estimated the cost of the benefits agreed to. One of the chief sources of

discrepancy between the actual and predicted experience is returns on pension fund assets that exceed those predicted by the actuary. This is a particularly galling source of discrepancy: the employer uses money which is legally and morally money held in trust for retiring workers to earn returns that reduce the employer's obligation to contribute to the workers' retirement! What is worse is that the discrepancy regularly arises from inflation which raises rates of return on investment, lowers employers' contributions to the pension fund, while the purchasing power of vested benefits and benefits being paid is being reduced.

This state of affairs is totally unsatisfactory. In our view, all pension fund returns in excess of those used to calculate the cost of benefits must be used to increase benefits and none should be used to reduce required employer contributions. Moreover, earnings that exceed those used in actuarial valuations that are attributable to current retirees and the vested benefits of terminated employees should be used to increase their benefits and the maximum permissible assumption concerning returns on investment should be set so as to minimize the use of inflation induced returns that are attributable to retirees and deferred vesteds to finance the benefits of active workers. We recognize that there are certain technical problems associated with this proposal such as: the time period over which the existence of excess returns should be determined; the proper method of determining returns; and, the proper means of attributing assets and earnings to retirees and vesteds when a plan is less than fully funded. Nonetheless, we are also convinced that these technical problems can be overcome if the basic principle we are proposing is adopted.

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The financial obligations of employers also arise as a problem when pension plans are being wound up or terminated. If a pension plan is wound up and the plan has unfunded liabilities (i.e., the assets in the pension fund are not sufficient to pay the benefits promised under the plan), the workers who have been promised benefits under the plan are vulnerable to having their benefits cut. The funding rules under pension benefits legislation and the requirement in some statutes for the regular payment of contributions to a plan provide some protection against the problem just noted. However, the protections just noted are not adequate to prevent workers from having their benefits cut when plans are wound up. In our view, employers should be completely responsible for the pension obligations they take on including unfunded liabilities; they should not simply be responsible for payments when they come due. Therefore, we would recommend that when a private pension plan is terminated, the pension fund should still have a legal claim against the employer (or the assets of a bankrupt employer) to the extent of the unfunded liability of the pension plan. We view this as a far more equitable arrangement than pension fund insurance which would compel other plans and/or the public to finance obligations taken on by single employers.

In cases where pension plans are terminated, the possibility that an unfunded liability will give rise to a reduction in promised benefits is only one of two unacceptable possibilities. Just as bad is a situation in which there is a surplus in the fund (i.e., assets are greater than the value of promised benefits) that is recovered by the employer when

the plan is wound up. Surpluses, which are monies held in trust for retiring workers, should be used to increase benefits when plans are wound up.

The integration of private pension plans with the C/QPP can also give rise to a number of problems concerning the financial obligations of employers and two of these deserve special mention here. If private pension plans are integrated according to what is known as a benefit offset method of integration, then the plan sponsor is committed to provide benefits according to a formula contained in the pension plan minus whatever is provided by the C/QPP. As a result, any increase in C/QPP benefits gives rise to an automatic reduction in the benefits that the employer has to provide. In our view, it is totally unacceptable that an employer should be able to make a windfall gain as a result of an increase in public pension benefits and we would, therefore, recommend that this method of integrating private plans with the C/QPP be prohibited.

Most plans that are integrated with the C/QPP are integrated according to formulae which commit employers to provide one level of benefits up to the maximum pensionable earning under the C/QPP and a higher level of benefits on earnings above that level. This method of integrating private plans with the C/QPP does not give rise to the automatic reduction in employers' obligations if the C/QPP replacement is increased beyond 25 per cent. However, there would be an automatic reduction in the employers' obligations if the YMPE was raised beyond the AIW. Elsewhere in this document we have argued against an increase in the YMPE beyond the AIW and,

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therefore, we have not made a specific recommendation to deal with this specific problem. Nonetheless, we have mentioned the problem here so that if a decision is made to increase the YMPE, the potential windfall gain to sponsors of private pension plans will be noted and prevented by regulation.

The Rights of Workers and Trade Unions Under Private Pension Plans: Despite the fact that workers have always paid fully for the benefits to which they become entitled under private pension plans, both the law and the practice of employer-employee relations has tended to deal with private pension plans as if they belonged to employers. Thus, for example, employers have felt free to introduce or amend private pension plans unilaterally; they have exercised the unilateral right to administer pension plans and name the trustees of pension funds; they have denied information to employees on the financing of pension plans and, in some instances, they have even denied the right to see official plan documents; and, they have denied the right to bargain collectively on behalf of retired members. Fortunately, many organized workers have been able to curb these practices through collective bargaining and in several jurisdictions the law has also made some significant advances in requiring plan sponsors to divulge information to workers who participate in private pension plans. However, if one begins to assess the legal rights of workers under private pension plans from the point of view that the plans are the property of the workers, then it quickly becomes evident that the law should go much further than it does in defining the rights of workers.

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In addition, a central element in the reality of employer-employee relations at many places of employment where workers are covered by private pensions is that the workers are represented by trade unions and their relationship with their employer is defined through collective bargaining. Unfortunately, this central element in reality is not recognized in pension benefits legislation.

A private pension plan is one of the terms and conditions of employment wherever such plans exist and their introduction or amendment automatically changes the terms and conditions of employment. Therefore, it seems to us that wherever a collective bargaining relationship exists, the law should prohibit the introduction or amendment of a private pension plan except through the collective bargaining process. Also the law should leave no doubt about the right of organized workers to negotiate improvements in the pension benefits being paid to retired members of pension plans. To the extent that these changes require amendments to labour codes, the pension benefits authorities should actively promote these changes.

The right of workers to participate in the administration and trusteeship of pension plans should also be recognized in law. Joint employer and employee trusteeship or administration should be mandatory where it is asked for by the employees or their bargaining agent. The degree of mandatory employee participation and the method by which unorganized employees might request participation are open questions, but the appropriateness of employee participation is undeniable given their

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proprietorial interest in private pension plans. In a related vein, pension benefits legislation should explicitly recognize workers and their collective bargaining agents as interested parties in any dispute as to whether a private pension plan is conforming with pension benefits legislation. There should be no doubt about the rights of workers and/or their bargaining agents to make representations to the courts in such cases.

With regard to the disclosure of information, we note with satisfaction that several jurisdictions have adopted new requirements in this regard. Because the new regulations meet with our general satisfaction we have confined ourselves to recommending that

> all financial information, actuarial data and information filed with pension benefits authorities should be available to employees and their bargaining agent at their place of work and the office of the relevant pension benefits authority

The thrust of this recommendation deals with the information that must be provided on request under the new regulations in Quebec, Ontario and Saskatchewan. We stress the word "all" financial information and support the inclusion in the Quebec regulations of the disclosure of information as to where pension funds are invested. We also think it is important that the information to be disclosed be available to workers at their place of work. A worker should not have to write to or make a visit to the offices

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of the pension benefit authorities in order to gain access to the information that has to be disclosed. Finally, we believe that the collective bargaining agents of workers should have automatic access to the information that has to be disclosed. They should not have to go through the process of being named as agents of individual plan members as they typically do at present.

Spousal Rights Under Private Pension Plans: To this point in our discussion of private pension plans, we have dealt with them as products of a relationship between workers and their employers. While this framework has been appropriate for most purposes, we believe that certain spousal rights can and should be recognized by private pension plans. We believe that this is particularly important since many households have organized their affairs in the past on the basis that only one spouse took on paid employment and a large number of households still are organized in this fashion. However, we have not pushed spousal rights as far in relation to private pension plans as we have in relation to the C/QPP and we have not done so for two reasons. First, we view the C/QPP as a more important source of retirement income for most retired Canadians and, therefore, in far greater need of having inequities in it redressed. Second, the private contractual element in private pension plans raises the question of how far one should go in imposing social norms on their operation. This second consideration does not suggest a clear dividing line between what is going too far and what is not. However, we freely acknowledge that it has led us to be somewhat

more wary of pushing spousal rights under private pension plans than under public ones.

The most obvious form of spousal right under a private pension plan is the right to a survivor benefit. However, it is all too often the case that survivor benefits are only available under occupational pension plans if the plan member knows about and elects to receive a reduced retirement pension in order to get a survivor benefit. Only 22 per cent of pension plan members in the private sector in 1980 belonged to pension plans that guarantee survivor benefits. From our point of view, it is unacceptable that the payment of survivor benefits should be left to the knowledge of their availability and the willingness of plan members to choose them. They should be included in the normal form of pension payment. However, because more and more married women are entering the paid labour force and earning pension entitlements in their own right, there are a growing number of households in which it makes no economic sense to force both spouses to choose survivor benefits. We would, therefore, recommend that both spouses have the right to jointly waive survivor benefits in favour of actuarially increased retirement benefits that would be payable to the plan member only.

We also believe that insofar as pension benefits legislation defines spousal rights, it should do so in a fashion that includes common law spouses within the scope of its definition of spouse. Common law relationships are too widespread to be ignored in pension benefits legislation.

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We mentioned above that in our view private pension entitlements should be treated as family assets and be divided equally on divorce. This seems reasonable to us since the pension contributions might just as easily have entered the household as income and been invested in other household assets that would be equally divided on divorce. In other words, the fact that private pension benefit entitlements are a special form of compensation should not protect them from the same treatment they would receive if they were received in the form of income.

Unisex Mortality Tables: The question of unisex mortality tables relates specifically to the way in which "money purchase" type private pension plans operate. These plans operate on the basis that the contributions to be made to the pension plan by employers and employees are spelled out in the pension plan but the benefits are not. Contributions on behalf of each employee and returns on invested contributions are designated to accounts for each individual employee. When an employee reaches retirement age, the money accumulated in the worker's account is withdrawn and used to purchase an annuity (i.e., a monthly benefit payment).

Annuities are only sold by insurance companies and the annuity rates (i.e., the amount of monthly benefit for each dollar invested in them) are based on the separate life expectancies of men and women. As a result of women's longer life expectancy, a dollar contributed to an

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annuity on behalf of a woman will buy a smaller monthly benefit than it will for a man.

The practice of providing women with lower benefits per dollar contributed than men under money purchase plans is blatantly discriminatory and especially unfair to the 40 per cent of women over 65 who will not survive as long as the average man. This practice might seem to be necessitated by the difference in male and female life expectancies. However, we cannot accept this argument. Defined benefit plans manage to average the life expectancies of men and women and provide equal benefits to both. We also know that life expectancies may be demonstrably different in terms of other characteristics such as race and nationality, yet we would not permit the establishment of annuity rates on this basis. Ultimately the acceptability of annuity rates based on sex is a philosophical question: is sex an acceptable basis for determining annuity rates? Our answer to this question is no. Annuities should have to be sold at rates that average the life expectancies of men and women - i.e., on the basis of unisex mortality tables. Women should get equal benefits for equal contributions under money purchase plans.

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Section VIII: CLC Proposals for Pension Reform in Summary

Old Age Security

1) the OAS benefit should be increased by 25 per cent so that it will represent approximately 17½ per cent of the average industrial wage rather than 14 per cent as it does at present;

2) OAS benefits should continue to be indexed quarterly to the CPI and the OAS benefit should be reviewed every five years to insure that it represents approximately 17½ per cent of the AIW;

3) in cases where full C/QPP benefits are available at age 60, the OAS should also be available (See: C/QPP Retirement Benefit, proposal #5); and,

4) immigrants with 10 years of continuous residence in Canada immediately prior to age 65 should be entitled to a supplemental benefit that would amount to the difference between:

   A. a full OAS and a C/QPP benefit calculated as if their contributory period began when they first became eligible for work in Canada; and,

   B. the public pension benefits to which they are entitled from their homeland plus the OAS and C/QPP under the existing rules.

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Guaranteed Income Supplement

1) the GIS benefit for singles should be increased by 25 per cent and for couples by 11.5 per cent;

2) GIS benefits should continue to be indexed quarterly to the CPI and the GIS benefit level should be reviewed every five years to insure that OAS and GIS will guarantee a level of income to the elderly that exceeds the Statistics Canada poverty line for Canada's largest cities;

3) in cases where full C/QPP benefits are available at age 60, GIS should also be available (See: C/QPP Retirement Benefits, proposal # 5); and,

4) immigrants with 10 years of continuous residence in Canada immediately prior to age 65 should be allowed to exclude OAS benefits determined according to existing rules plus foreign public pension benefits up to the level of a full OAS, from the income against which maximum GIS benefits are reduced.

C/QPP

Retirement Benefits

1) the retirement benefit should be increased from 25 to 50 per cent of pre-retirement earnings up to the yearly maximum pensionable earning (YMPE);

2) the new benefits should be phased-in as if the maximum benefit level had continued to increase at 2½ per cent per year after

1976 and payments begun after 1976 should be increased to reflect this method of phasing-in increased benefits;

3) the YMPE should be increased immediately to the AIW and be indexed to it;

4) retirement benefits should be calculated on the basis of the YMPE during the year of retirement;

5) full C/QPP benefits should be available at age 60 to people who have been involuntarily retired due to ill health or long periods of unemployment resulting from layoffs and plant shutdowns;

6) C/QPP drop-out rules should be extended so that periods of low earnings resulting from tending children under 7 or looking after elderly or disabled relatives would not be included in a contriburor's earnings record for purposes of calculating C/QPP benefits;

7) the C/QPP retirement benefits of married contributors that are earned during a marriage should be split equally between the two spouses when the younger spouse reaches age 65;

8) all spousal rights under the C/QPP should be available to common-law spouses who should not have to represent themselves as being married in order to exercise these rights;

9) the equal division of C/QPP credits on divorce should be mandatory;

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10) there should be a special supplemental pension for adult immigrants (See: OAS proposal #4).

Survivor Benefits

1) where credit splitting has taken place, survivors over 65 should receive a continuing monthly benefit of 50 per cent of the deceased contributors retirement pension; if credit splitting has not taken place, survivors over 65 should receive a continuing benefit of 75 per cent of the deceased contributor's benefit;

2) the rules governing benefits to survivors under 65 should be amended in the following ways:

   i) existing eligibility requirements should be supplemented by a labour force attachment test that would preclude the payment of a continuing monthly benefit to survivors with a substantial attachment to the labour force that is not likely to be affected by the death of a spouse;

   ii) the flat rate component of the continuing benefit should be increased to the level of the OAS and the earnings related component should be raised to 3/4 of the joint credits of the survivor and the deceased contributor at the time of the contributor's death; and,

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iii) in view of the fact that the recipient of a continuing survivor's benefit may enter the labour force for the first time after the death of a contributor, the survivor should have ½ of the joint credits earned by the couple during their marriage credited to their earnings record for purposes of calculating an ultimate retirement benefit and the period spent receiving the continuing survivor's benefit should be dropped from their earnings record.

Disability Benefits

1) the flat rate component of the disability benefit should be raised to the level of the OAS and the earnings related component should be raised to 100 per cent of the retirement benefit to which the disabled contributor would have become entitled had they reached 65 at the time they became disabled.

Benefits - General

1) in cases where a C/QPP beneficiary is receiving benefits from more than one part of the plan (e.g., survivor and retirement benefits), the maximum benefit from the two parts of the plan should not be limited to the maximum retirement benefit;

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2) the existing maximum contributory period for the C/QPP survivor and disability benefits should be supplemented by a rule that allows these benefits to be paid in any case where two valid contributions had been made in the three years prior to and including the year of death or disability.

Financing

1) the C/QPP should continue to be financed on a basically pay-as-you-go basis with a reserve fund to be maintained at a level equal to at least the following two years benefit payments and administrative expenses;

2) a formal mechanism for reviewing and adjusting the C/QPP contribution rate every five years should be created; the review process should try to anticipate the required contribution rate for the coming 20 years and determine the level of annual contribution rate increases that will be required to meet the targeted pay-as-you-go rate required 20 years in the future; the required annual increases should be levied on contributors each year;

3) the current method of allocating C/QPP savings is basically satisfactory but: i) there should be no doubt about the obligation of the provinces to repay their loans; and, ii) the provinces should borrow through provincial development agencies that would be managed by Boards of Trustees made up of a majority of labour representatives;

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4) as part of the process of reviewing the required contribution rates under the C/QPP, methods of relieving the burden of increased C/QPP contributions on low income contributors should be investigated and acted on.

The Regulation of Private Pension Plans

1) eligibility to participate in a private pension plan must not be precluded on the basis of: age, service requirements in excess of one year or part-time employment;

2) vesting should be full and automatic after two years of service;

3) under contributory pension plans:

   i) an employee's contributions plus interest must not exceed ½ of the commuted value of deferred vested benefits and employee contributions and interest in excess of this amount must be refunded to the employee, transferred to an RRSP, or left in the pension plan as a voluntary contribution; and,

   ii) refunded employee contributions must bear a rate of interest no less than the net rate of return on the pension fund.

4) in cases where an employee has earned the right to a deferred vested benefit but dies before becoming eligible to receive it, the commuted value of the benefit must be paid to the employee's estate or a continuing benefit of an actuarially equivalent value must be paid to a surviving beneficiary;

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5) pension fund earnings in excess of those used for purposes of actuarial valuations must be used to improve pension benefits and the excess earnings attributable to current retirees and the vested benefits of terminated employees must be used to improve benefits; the earnings assumption used for purposes of actuarial valuations should be subject to a maximum that would limit the use of inflation induced earnings that are attributable to current retirees and deferred vesteds to finance the benefits of active workers;

6) breaks in service of two years or less must not be treated as a termination of employment;

7) a government run central pension registry should be established to keep track of the vested pension benefits of workers who terminate before retirement;

8) survivor's benefits should be mandatory unless waived by both spouses in which case the payment of actuarially increased benefits should be required;

9) when a pension plan is terminated, the plan sponsor must be held responsible for making up unfunded liabilities under the plan and any available actuarial surplus must be used to increase benefits;

10) benefits under money purchase plans should be calculated according to unisex mortality tables;

11) on marriage breakdown private pension entitlements should be recognized as family assets and be divided equally between both spouses;

12) common-law marriages should be recognized as entitling people to spousal rights under private pension plans;

13) the benefit offset method of integrating private pension plans with the C/QPP should be prohibited;

14) the unique nature of multi-employer pension plans should be recognized in pension benefits legislation; pending a resolution to the special problems of multi-employer plans, pension benefits legislation should leave scope for the adoption of special rules pertaining to them.

15) where a collective bargaining relationship exists, a pension plan should only be able to be introduced or amended through the collective bargaining process;

16) joint employee and employer trusteeship or administration should be mandatory where it is asked for by the employees or their bargaining agent;

17) all financial information, actuarial data and information filed with pension benefits authorities should be available to employees and their bargaining agent at their place of work and the office of the relevant pension benefits authority;

18) in the event of legal disputes between pension plan sponsors and pension benefits authorities, the right of employees and their

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collective bargaining agents to make representations to the court should be explicitly recognized in pension benefits legislation; and,

19) all jurisdictions in Canada should have pension benefits legislation that meet these standards and uniformity in pension benefits legislation in all jurisdictions should be strived for to the greatest extent possible.

BACKGROUND PAPERS

In connection with the preparation of this document, the Canadian Labour Congress has had a number of background papers prepared by its staff and the staff of its affiliated unions. These papers are currently in draft form and final editing and publication will not be complete until July 1, 1982. At that time they will be available on request. One paper, A Review of the Government of Canada's Green Paper on Pension Reform, will naturally have to await the publication of the Green Paper.

Funding Alternatives for the Canada Pension Plan

The Economic Effects of CPP Financing

Women and Pensions

The Costs of CPP Expansion

The Future of Private Pension Plans if the CPP Expanded

Foreign Experience with the Financing of Public Pension Plans

A Review of the Government of Canada's Green Paper on Pension Reform

Tax Support for Retirement Income Programs in Canada

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POOR

QUALITY

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